Business combinations

2.46 An entity can choose not to restate any business combination that occurred prior to its transition to IFRS, and it can apply IFRS 3 prospectively from the date of transition. An entity might choose to restate earlier business combinations in accordance with IFRS 3 from any point in time prior to the date of transition. If a first-time adopter elects to apply IFRS 3 retrospectively to past business combinations, it must restate all business combinations from that chosen date that is prior to the transition date. The entity also must apply IFRS 10, IAS 36 and IAS 38 from that same date. Only the current version of IFRS 3 is used by a first-time adopter.

[IFRS 1 para C1].

FAQ 2.46.1 – What version of IFRS 3 should a first-time adopter use?

2.47 The main provisions of the business combinations exemption are summarised in the table below:

	Provision	Adjustments made against	Dealt with from (para)
Classification (as acquisition, merger, reverse acquisition)	■ Classification is the same as it was under previous GAAP.	■ Not applicable.	2.48
Recognition ■ Assets and liabilities previously recognised in the business combination.	■ Recognise all assets and liabilities in accordance with IFRS, except some financial assets and liabilities de-recognised under previous GAAP, where the de-recognition exception is applied. ■ Do not recognise assets and liabilities whose recognition is not permitted by IFRS.	■ Equity, except that, where an intangible asset is de-recognised, it is adjusted against goodwill.	2.49
■ Assets and liabilities not previously recognised in the business combination in consolidated balance sheet of the acquirer.	■ Recognise assets and liabilities only if they would be recognised in accordance with IFRS in the financial statements of the acquiree.	■ Equity, except where an intangible asset is recognised that had previously been subsumed within goodwill, which is adjusted against goodwill (as any related deferred tax and non-controlling interests).	2.51
Measurement	■ Measure all assets and liabilities in accordance with IFRS. ■ Where IFRS requires measurement at fair value, measure on this basis. ■ For assets and liabilities measured at cost, the amount recorded on original combination is deemed cost for cost-based measurement. ■ Assets and liabilities not previously recognised are measured on the basis that IFRS would require in financial statements of the acquiree.		

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	■ Measure all assets and liabilities in accordance with IFRS. ■ Where IFRS requires measurement at fair value, measure on this basis. ■ For assets and liabilities measured at cost, the amount recorded on original combination is deemed cost for cost-based measurement. ■ Assets and liabilities not previously recognised are measured on the basis that IFRS would require in the financial statements of the acquiree.	■ Equity.	2.54

Classification

2.48 A first-time adopter can elect to apply IFRS 3 prospectively to business combinations that occur on or after the date of transition to IFRS and not restate any business combinations prior to that date. The business combinations exemption applies to all transactions that meet the IFRS definition of a business combination, irrespective of its original classification under the entity's previous GAAP. So, a business combination before the date of transition that was classified as an asset acquisition is allowed to apply the exemption rules.

[IFRS 1 para. C1].

FAQ 2.48.1 – IFRS 3 exemption from date prior to transition date

FAQ 2.48.2 – Business combination not included in the previous GAAP financial statements

FAQ 2.48.3 – IFRS 3 exemption: step acquisition

FAQ 2.48.4 – IFRS 3 exemption: business combination classification under previous GAAP

Recognition

2.49 Business combinations prior to the transition date do not have to be restated. All of the assets and liabilities pertaining to those combinations should

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be recognised and measured in accordance with IFRS. There are, however, certain exceptions to this.

[IFRS 1 para C4].

2.50 The recognition criteria for assets and liabilities acquired and recognised in past business combinations under the exemption are the same as those for other assets and liabilities of an entity adopting IFRS. However, the corresponding entries for any adjustments required on first-time adoption of IFRS are different in some cases. Recognised assets and liabilities acquired in past business combinations should not be recognised in an entity's opening IFRS balance sheet if their recognition is not permitted by IFRS. The adjustment for de-recognition is made to retained earnings or another appropriate category of equity except for intangible assets acquired as part of a business combination. Any intangible asset recognised on a business combination under previous GAAP that cannot be recognised under IAS 38 should be adjusted against (that is, added to) goodwill. Any related deferred tax and non-controlling interest should also be adjusted against goodwill.

[IFRS 1 para C4(c)].

2.51 An asset or liability have been acquired, but not previously recognised, in a business combination. The most common example is intangible assets that were not recognised under previous GAAP. These assets and liabilities should only be recognised on adoption of IFRS if they would have qualified for recognition in the separate balance sheet of the acquiree under IFRS. If an intangible asset that was previously subsumed within goodwill is recognised, the adjustment should be made against goodwill. Related deferred tax and non-controlling interest should also be adjusted against goodwill. Any other adjustments are recognised against retained earnings, or another appropriate category of equity.

[IFRS 1 para C4].

FAQ 2.51.1 – Recognition of intangible assets when using IFRS 3 exemption

FAQ 2.51.2 – IFRS 3 exemption: treatment of in-process research and development (IPR&D) costs

2.52 An acquired entity might have a separately acquired intangible asset that met the recognition criteria under IAS 38 but was expensed under previous GAAP. The intangible asset is recognised as an asset on transition to IFRS, and it is included in an entity's opening IFRS balance sheet at its acquisition date fair value, as adjusted for any amortisation or impairment to the date of transition to IFRS.

[IFRS 1 para C4].

2.53 An entity must recognise all assets and liabilities, other than intangibles, where IFRS requires their recognition, whether or not they were acquired as part of a business combination. The criteria for recognition of most other assets and

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liabilities is the same, whether they were acquired as part of a business combination, acquired directly by the reporting entity or internally generated.

[IFRS 1 para C4].

Measurement

2.54 Assets and liabilities acquired in a business combination and recognised using the business combinations exemption are measured on the following basis:

- Any assets and liabilities measured at fair value under IFRS are measured at fair value on transition to IFRS, whether or not they were acquired in a past business combination. Any adjustment arising from remeasurement should be made against retained earnings or another appropriate category of equity.
- For assets and liabilities measured on a cost basis under IFRS, the carrying value of an asset or liability immediately after a business combination is deemed cost for any cost-based measurement, going forward from the date of the combination. Therefore:
  - Previous GAAP fair value adjustments do not have to be revised. The fair value of an asset or liability recorded under previous GAAP on acquisition becomes its deemed cost for IFRS purposes, even though the values determined might not comply with IFRS.
  - If the pooling of interests method was applied at the time of acquisition, the deemed cost will be the carrying value in the acquiree's books at the acquisition date.
  - The carrying value of the other tangible and intangible assets would not be adjusted, unless:
    - they were impaired in accordance with IAS 36; or
    - the depreciation/amortisation charge since the acquisition date is materially different from the charge calculated in accordance with IFRS.

[IFRS 1 para C4].

FAQ 2.54.1 – First-time adoption for business combinations: de-recognition of liability

FAQ 2.54.2 – First-time adoption for business combinations: de-recognition of intangible asset

FAQ 2.54.3 – First-time adoption for business combinations: measurement of finance lease

FAQ 2.54.4 – First-time adoption for business combinations: measurement of intangible assets

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FAQ 2.54.5 – First-time adoption for business combinations: measurement of provisions

Goodwill

2.55 Goodwill in an entity's opening IFRS balance sheet, if the business combinations exemption is used, should be stated at its carrying amount prior to the date of transition under that entity's previous GAAP, adjusted for only intangibles and impairment as follows:

- Any previously recognised intangible assets that do not qualify for recognition under IFRS (see para 2.50), or any previously unrecognised intangible assets where recognition is required under IFRS (see para 2.51) should be adjusted against goodwill. Related adjustments to non-controlling interest and deferred tax should also be made against goodwill.
- A first-time adopter tests goodwill for impairment at the date of transition to IFRS, based on conditions at that date. Any impairment loss should be recorded in retained earnings (or revaluation reserve, if required by IAS 36). Goodwill under previous GAAP cannot be restated to adjust any previous amortisation or impairments.

[IFRS 1 para C4].

2.56 Existing IFRS preparers can adjust goodwill for changes in contingent consideration if they have relevant transactions that were accounted for under the 2004 version of IFRS 3. First-time adopters cannot adjust goodwill for subsequent changes in contingent consideration.

2.57 Goodwill that was written off to reserves under previous GAAP cannot be reinstated as an asset. Goodwill that was taken directly to reserves is not transferred to the income statement as part of any gain or loss on disposal. If goodwill has previously been written off to reserves, any adjustments that IFRS 1 requires to be made against goodwill will also go to reserves.

[IFRS 1 para C4(i)].

2.58 Similar rules apply for any goodwill for associates and joint ventures determined under previous GAAP that was deducted from reserves and not included in the carrying amount of the associate or joint venture. The goodwill is not reinstated on transition to IFRS, nor is it recycled through the income statement when the associate or joint venture is sold.

FAQ 2.58.1 – First-time adoption for business combinations: goodwill

2.59 Goodwill should not be adjusted on transition to reverse any adjustments that IFRS 3 would not have permitted, but that had been made under previous GAAP between the date of the business combination and the date of transition. IFRS 3 allows a measurement period of a maximum of 12 months from the acquisition date to complete the accounting for a business combination. An

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entity's previous GAAP might have allowed a period greater than 12 months. Any adjustments to goodwill made under previous GAAP falling outside the permitted measurement period under IFRS 3 would not be reversed on transition to IFRS.

[IFRS 1 para C4(h)(iii)].

Deferred tax and business combinations

2.60 There are no exemptions from the requirements of IAS 12 for first-time adopters. IFRS 3 creates a number of related deferred tax issues, whether or not the business exemption is used or any previous business combinations are restated. Any adjustments made to amounts recorded on past business combinations might also affect the measurement of deferred tax. A first-time adopter must also recognise any deferred tax assets or liabilities arising from any consolidation adjustments. For example, fixed assets might have been measured at fair value on acquisition. Deferred tax might not have been provided under previous GAAP, but provision is required by IAS 12.

2.61 Similarly, a deferred tax provision is required in respect of temporary differences that have not been recognised by the acquired entity prior to its acquisition, due to the initial recognition exception in IAS 12. Deferred tax that is related to the recognition of intangible assets is recognised against goodwill. All other deferred tax that is recognised, de-recognised or remeasured as a result of past business combinations is adjusted against retained earnings or another appropriate category of equity.

[IFRS 1 para C4(k)].

2.62 The requirements of IAS 12 apply to all of the assets and liabilities of a group. Temporary differences arise when the carrying amount of assets and liabilities acquired in a business combination are determined by reference to fair values at the date of acquisition, but the tax bases of those assets and liabilities remain unchanged. Deferred tax should, therefore, be provided on the difference between the fair value and the tax base of all assets and liabilities acquired in a business combination. Even if an entity uses the exemption and does not have to restate past business combinations, it might still have to restate the deferred tax arising on those combinations. This adjustment should be made, on transition, against retained earnings.

[IFRS 1 para C4(k)].

FAQ 2.62.1 – Deferred tax: intangible asset recognised through acquisition

2.63 Goodwill from past business combinations might have been written off to reserves, but the carrying value of the goodwill might be amortised for tax purposes. The goodwill might have a tax base, at the date of transition to IFRS, equal to the amount of tax deductions to be received in the future. A deferred tax asset should be recognised for all deductible temporary differences, as long as there will be sufficient taxable profits to recover the asset in future periods. There is no exemption from recognising deferred tax assets for tax-deductible goodwill

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Mandatory exceptions and optional exemptions from full retrospective application

2.18 The general requirement of IFRS 1 is full retrospective application of all accounting standards effective at the end of an entity's first IFRS reporting period. IFRS 1 has two categories of exceptions to full retrospective application – mandatory exceptions and optional exemptions.

[IFRS 1 para 12].

2.19 The exceptions and exemptions, and their application, are summarised below:

Mandatory exceptions from full retrospective application	**Scope – exception applies to**	**Dealt with from (para)**
Estimates	All estimates, unless the bases adopted are not compliant with IFRS	2.20
De-recognition of financial assets and liabilities (IAS 39/IFRS 9)	All non-derivative financial assets and liabilities de-recognised before the date of transition, unless the entity decides to adjust retrospectively under paragraph B3 of IFRS 1	2.25
Hedge accounting (IAS 39/ IFRS 9)	All hedging relationships in existence from accounting periods beginning prior to adoption of IAS 39/IFRS 9	2.27
Non-controlling interests	All equity in a subsidiary not attributable, directly or indirectly, to a parent	2.38
Classification and measurement of financial assets (IFRS 9)	All financial assets at the transition date	2.40
Embedded derivatives (IAS 39/ IFRS 9)	All embedded derivatives	2.41
Government loans.	All government grants classified as financial liabilities under IAS 32	2.43
Optional exemptions from full retrospective application	**Scope – exemption, where taken, applies to**	**Dealt with from (para)**
Business combinations	All business combinations prior to the transition date; or, if the entity chooses to apply IFRS 3 to a combination prior to the transition date, all combinations prior to that date	2.46

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Optional exemptions from full retrospective application	Scope – exemption, where taken, applies to	Dealt with from (para)
Share-based payment transactions	Equity instruments granted on or before 7 November 2002, or equity instruments granted after 7 November 2002 and vested by the date of transition	2.78
Insurance contracts	All insurance contracts	2.80
Deemed cost	Any tangible fixed asset, investment property and a limited number of intangible assets	2.81
Leases	All arrangements that contain a lease	2.95
Cumulative translation differences	All cumulative translation differences existing at the date of transition	2.99
Investments in subsidiaries, joint ventures and associates	Any investments in subsidiaries, joint ventures and associates in separate financial statements	2.100
Assets and liabilities of subsidiaries, associates and joint ventures	All such assets and liabilities whose transition date is different from that of the parent/group	2.104
Compound financial instruments (from the issuer perspective)	All compound financial instruments where the liability component has been settled by the date of transition	2.112
Designation of previously recognised financial instruments (IAS 39/IFRS 9)	Any financial instrument	2.114
Fair value measurement of financial assets or financial liabilities at initial recognition (IAS 39/IFRS 9)	All relevant financial assets or financial liabilities	2.118
Decommissioning liabilities included in the cost of property, plant and equipment	All decommissioning liabilities	2.120
Financial assets or intangible assets accounted for in accordance with IFRIC 12	All relevant financial assets or intangible assets accounted for in accordance with IFRIC 12	2.123
Borrowing costs	All borrowing costs	2.124
Transfers of assets from customers	Transfers of assets from customers within the scope of IFRIC 18	2.126

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2.6 Financial statements in accordance with IFRS are an entity's first IFRS financial statements if, for example, the entity's most recent previous financial statements:

- are not consistent with IFRSs in all respects;
- do not contain an explicit and unreserved statement of compliance, even where they conform with IFRS in all respects (this would generally be the case for financial reporting information prepared for group reporting purposes);
- state that they are consistent with some, but not all, IFRSs;
- apply national requirements and some IFRSs for specific items; or
- apply national requirements with a reconciliation to IFRS.

[IFRS 1 para 3(a)].

FAQ 2.6.1 – Is the context relevant?

FAQ 2.6.2 – Does group reporting financial information qualify as IFRS financial statements?

FAQ 2.6.3 – Where the most recent financial statements previously complied with some, but not all, IFRSs, will the financial statements qualify as first IFRS financial statements?

2.7 Financial statements might also be an entity's first IFRS financial statements where its previous financial statements:

- were prepared for internal use, without making them available to owners or other external users;
- were prepared for consolidation or group reporting purposes, but are not a complete set of financial statements under IAS 1; or
- do not contain comparatives.

[IFRS 1 para 3(b)–(d)].

FAQ 2.7.1 – For an entity that has historically been preparing financial statements using multiple GAAPs, none of which are IFRS, what is its previous GAAP for the purpose of its first set of IFRS financial statements?

FAQ 2.7.2 – First IFRS financial statements: no comparative information presented

2.8 Financial statements are not 'first IFRS financial statements' and IFRS 1 is not applied where:

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- an entity previously prepared both IFRS (containing an explicit and unreserved statement of compliance) and local (national) financial statements, but then stopped presenting the local financial statements;
- the previous year's financial statements were in accordance with national requirements and contained an explicit and unreserved statement of compliance with IFRS; or
- the previous year's financial statements contained an explicit statement of compliance with IFRS, but the auditors' report was qualified (other than where the qualification relates to non-compliance with IFRSs).

[IFRS 1 para 4].

FAQ 2.8.1 – First IFRS financial statements: qualified audit opinion for the impact of a qualification for non-compliance with IFRS

Repeated first-time application

2.9 An entity can be a first time adopter more than once. An entity might cease applying IFRS for various reasons and then decide to adopt IFRS again, although this would be unusual and could give rise to regulatory scrutiny. There might be a difference between the requirements for general purpose statutory financial statements and financial statements prepared to comply with specific regulatory requirements (for example, in an IPO). This might lead to the situation of an entity having more than one adoption date.

[IFRS 1 para 4A].

FAQ 2.9.1 – Repeated first-time adoption in connection with an IPO

FAQ 2.9.2 – Repeated first-time adoption

Recognition and measurement

Date of transition

2.10 The date of transition is the beginning of the earliest period for which an entity presents full comparative information under IFRS in its first IFRS financial statements. IFRS 1 requires an entity to prepare and present an opening balance sheet as a primary statement at the date of transition to IFRS. IFRS 1 does not require an entity to present an opening balance sheet in its interim financial report in the year of first-time adoption. However, this is good information for users and can be included either in the interim financial report or in a previously issued transition document. Comparative periods are discussed in more detail in paragraph 2.138.

[IFRS 1 para 6].

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Accounting policies

Accounting policies throughout first IFRS financial statements

2.11 Entities should use the same accounting policies throughout their first IFRS financial statements and in their opening IFRS balance sheet. These accounting policies should be those complying with the accounting standards effective at the end of an entity's first IFRS reporting period. An entity's first IFRS reporting period is the *"latest reporting period covered by an entity's first IFRS financial statements"*. An entity adopting IFRS for the first time should use the current version of an IFRS throughout the periods presented in its first IFRS financial statements.

[IFRS 1 para 7].

2.12 The IAS 8 disclosures for changes in accounting policies are not required for a first-time adopter. IAS 8 also does not apply to changes made to accounting policies during the period of an entity's first IFRS financial statements. This includes a change in policy between publication of an entity's first IFRS interim report and the entity's first IFRS financial statements. However, an entity must explain any changes in its first IFRS financial statements and provide updated reconciliations (see further para 2.143). This disclosure requirement also applies where an entity changes its use of the exemptions in IFRS 1 between the interim report and its first IFRS financial statements.

[IFRS 1 para 27].

FAQ 2.12.1 – Standards in force at the end of the first IFRS reporting period not yet known

FAQ 2.12.2 – Change in accounting policies during year of first-time adoption

Standards not mandatory at the end of an entity's first IFRS reporting period

2.13 If an IFRS is not mandatory at the end of an entity's first IFRS reporting period, but it allows early adoption, that IFRS can be used in the entity's first IFRS financial statements. IFRS 1 does not require an entity to use a more recent version of an IFRS, but rather explains the advantages of applying a more recent version of an IFRS.

[IFRS 1 para 8].

2.14 Entities do not have to base their choice of policies, when first applying IFRS, on the policies applied under their previous GAAP.

[IFRS 1 para 11].

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Initial recognition and measurement

2.05 All items in an entity's opening IFRS balance sheet should be recognised and measured in accordance with the standards in force at the end of an entity's first IFRS reporting period. These requirements are applied retrospectively as follows:

- Recognise all assets and liabilities whose recognition is required by IFRSs.
- Do not recognise items as assets or liabilities if IFRSs do not permit such recognition.
- Reclassify items that were recognised as one type of asset, liability or component of equity under previous GAAP, but that are a different type of asset, liability or component of equity under IFRSs.
- Apply IFRSs in measuring all recognised assets and liabilities.

[IFRS 1 para 10].

2.06 Most changes made on adoption of IFRS should be dealt with as adjustments to retained earnings or another appropriate category of equity at the date of transition. Certain assets might be measured at fair value with changes in equity. The adjustments to recognise those items should be made to a category of equity other than retained earnings, as follows:

- The difference between cost of available-for-sale investments and their fair value at the date of transition, less impairment losses since purchase.
- The result of remeasuring derivative financial instruments classified as cash flow hedges in accordance with IAS 39/IFRS 9.
- The difference between cost of property, plant and equipment and fair value where the allowed alternative in IAS 16 is adopted.

There are limited circumstances in which adjustments on transition are made against goodwill (see further para 2.55).

[IFRS 1 para 11].

Deferred tax impacts

2.07 Entities will apply IAS 12 at the date of transition. There will be deferred tax impacts from some of the accounting policy changes that are made on transition to IFRS or on use of exemptions in IFRS 1. An entity should apply IAS 12 to temporary differences between the carrying amount of the assets and liabilities and their tax bases as at the date of its opening IFRS balance sheet. These deferred tax impacts should also be accounted for as part of the adjustments made on transition, against retained earnings or another appropriate category of equity. In limited circumstances, deferred tax is adjusted against goodwill (see further para 2.55).

[IFRS 1 para IG5].

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Mandatory exceptions and optional exemptions from full retrospective application

2.18 The general requirement of IFRS 1 is full retrospective application of all accounting standards effective at the end of an entity's first IFRS reporting period. IFRS 1 has two categories of exceptions to full retrospective application – mandatory exceptions and optional exemptions.

[IFRS 1 para 12].

2.19 The exceptions and exemptions, and their application, are summarised below:

Mandatory exceptions from full retrospective application	Scope – exception applies to	Dealt with from (para)
Estimates	All estimates, unless the bases adopted are not compliant with IFRS	2.20
De-recognition of financial assets and liabilities (IAS 39/IFRS 9)	All non-derivative financial assets and liabilities de-recognised before the date of transition, unless the entity decides to adjust retrospectively under paragraph B3 of IFRS 1	2.25
Hedge accounting (IAS 39/ IFRS 9)	All hedging relationships in existence from accounting periods beginning prior to adoption of IAS 39/IFRS 9	2.27
Non-controlling interests	All equity in a subsidiary not attributable, directly or indirectly, to a parent	2.38
Classification and measurement of financial assets (IFRS 9)	All financial assets at the transition date	2.40
Embedded derivatives (IAS 39/ IFRS 9)	All embedded derivatives	2.41
Government loans.	All government grants classified as financial liabilities under IAS 32	2.43
Optional exemptions from full retrospective application	**Scope – exemption, where taken, applies to**	**Dealt with from (para)**
Business combinations	All business combinations prior to the transition date; or, if the entity chooses to apply IFRS 3 to a combination prior to the transition date, all combinations prior to that date	2.46

Optional exemptions from full retrospective application
Share-based payment transactions
Insurance contracts
Deemed cost
Leases
Cumulative translation differences
Investments in subsidiaries, joint ventures and associates
Assets and liabilities of subsidiaries, associates and joint ventures
Compound financial instruments (from the issuer perspective)
Designation of previously recognised financial instruments (IAS 39/IFRS 9)
Fair value measurement of financial assets or financial liabilities at initial recognition (IAS 39/IFRS 9)
Decommissioning liabilities included in the cost of property, plant and equipment
Financial assets or intangible assets accounted for in accordance with IFRIC 12
Borrowing costs
Transfers of assets from customers

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Optional exemptions from full retrospective application	Scope – exemption, where taken, applies to	Dealt with from (para)
Share-based payment transactions	Equity instruments granted on or before 7 November 2002, or equity instruments granted after 7 November 2002 and vested by the date of transition	2.78
Insurance contracts	All insurance contracts	2.80
Deemed cost	Any tangible fixed asset, investment property and a limited number of intangible assets	2.81
Leases	All arrangements that contain a lease	2.95
Cumulative translation differences	All cumulative translation differences existing at the date of transition	2.99
Investments in subsidiaries, joint ventures and associates	Any investments in subsidiaries, joint ventures and associates in separate financial statements	2.100
Assets and liabilities of subsidiaries, associates and joint ventures	All such assets and liabilities whose transition date is different from that of the parent/group	2.104
Compound financial instruments (from the issuer perspective)	All compound financial instruments where the liability component has been settled by the date of transition	2.112
Designation of previously recognised financial instruments (IAS 39/IFRS 9)	Any financial instrument	2.114
Fair value measurement of financial assets or financial liabilities at initial recognition (IAS 39/IFRS 9)	All relevant financial assets or financial liabilities	2.118
Decommissioning liabilities included in the cost of property, plant and equipment	All decommissioning liabilities	2.120
Financial assets or intangible assets accounted for in accordance with IFRIC 12	All relevant financial assets or intangible assets accounted for in accordance with IFRIC 12	2.123
Borrowing costs	All borrowing costs	2.124
Transfers of assets from customers	Transfers of assets from customers within the scope of IFRIC 18	2.126

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Optional exemptions from full retrospective application	Scope – exemption, where taken, applies to	Dealt with from (para)
Severe hyper-inflation	Any entity with functional currency that was, or is, the currency of a hyper-inflationary economy	2.127
Joint arrangements	A first-time adopter can apply the transition provisions in IFRS 11, with certain exceptions	2.129
Stripping costs	First-time adopters can apply the transitional provisions set out in paragraphs A1 to A4 of IFRIC 20	2.130
Extinguishing financial liabilities with equity instruments	Extinguishing of financial liabilities within the scope of IFRIC 19	2.131
Regulatory deferral accounts (IFRS 14)	All regulatory deferral accounts of an entity that conducts rate-regulated activities	2.132

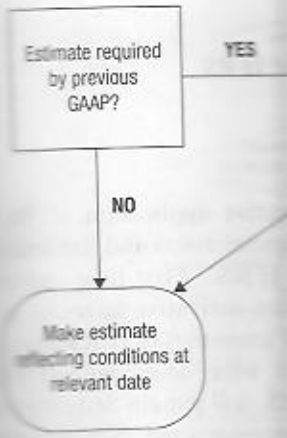
Exceptions to the retrospective application of other IFRSs

Estimates

2.20 Estimates made should be consistent with those made under previous GAAP, unless the bases adopted are not compliant with IFRS. Hindsight cannot be used for estimates, either at the date of transition or at any point during the comparative period, including the end of the comparative year. More information that comes to light about estimates made under previous GAAP is treated in the same way as non-adjusting events after the balance sheet date under IAS 10, unless the previous estimate was in error.

[IFRS 1 para 14].

2.21 The following decision chart summarises the guidance:



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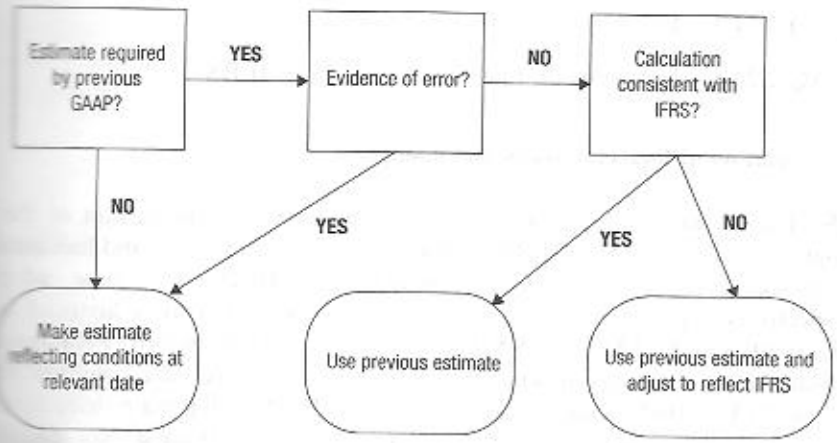

2.223 Certain estimates might not have been required by a first-time adopter's previous GAAP (or at the date of the comparative balance sheet), but are required by IFRS. Entities make those estimates on transition, and they base those estimates on conditions that existed at the date of transition (or at the date of the comparative balance sheet). Estimates should not be updated for conditions later than the date of transition to IFRS or the date of the comparative balance sheet in the first IFRS financial statements. For example, an entity might have to fair value an interest rate swap when adopting IFRS that it did not have to fair value under its previous GAAP. Any estimates that are required to determine fair value should be based on conditions at the date of transition to IFRS (or the date of the comparative balance sheet), and not on later conditions.

[IFRS 1 para 16].

2.223.1 A calculation, or method of estimation, might not be consistent with IFRS. An IFRS method of estimation should be used if a method of estimation used under previous GAAP does not accord with that required by IFRS.

[IFRS 1 para IG7].

2.224 Estimates should be consistent with those made under previous GAAP 'after adjustments to reflect any difference in accounting policies'. An entity might decide to adopt the revaluation model in IAS 16 for a class of property, plant and equipment. It does so from the date of transition, as a change in accounting policy rather than as a change in accounting estimate. The entity might need to revalue its property, plant and equipment at the date of transition. This revaluation is part of the change in policy (to a revaluation basis), and it should be accounted for as of the date of the opening balance sheet under IFRS.

[IFRS 1 para 14].

FAQ 2.24.1 – Estimates: compound financial instrument

FAQ 2.24.2 – Estimates: legal provision

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FAQ 2.24.3 – Estimates: bad debt impairment

FAQ 2.24.4 – Estimates on first-time adoption of IFRS

De-recognition of financial assets and liabilities

2.25 The mandatory exception from full retrospective application of the de-recognition rules in IAS 39/IFRS 9 applies to all financial assets and liabilities de-recognised before the date of transition to IFRS. First-time adopters prospectively apply the de-recognition criteria for non-derivative financial assets and liabilities under IAS 39/IFRS 9, from the date of transition to IFRS onwards. Non-derivative financial assets and liabilities that were de-recognised under previous GAAP, before the date of transition to IFRS, will remain de-recognised; therefore, those transactions would not have to be reconstructed. Non-derivative financial assets and liabilities that were de-recognised under previous GAAP, after the date of transition to IFRS, will be recognised again in the financial statements of first-time adopters, if they do not qualify for de-recognition under IAS 39/IFRS 9.

[IFRS 1 para B2].

2.26 However, an entity can elect to recognise non-derivative financial assets and liabilities by reconstructing the related past transactions if the relevant information is available. An entity can retrospectively apply the de-recognition requirements in IAS 39/IFRS 9 from a date of the entity's choosing, provided that such an entity has the information required by IAS 39/IFRS 9 at the time of initially accounting for those transactions.

[IFRS 1 para B3].

Hedge accounting

2.27 Hedge accounting under IFRS can be used only from the date when the designation and documentation of a hedge relationship is completed. The stages in the process are illustrated in the flow chart below and are described in the paragraphs that follow.

[IFRS 1 para BC75].

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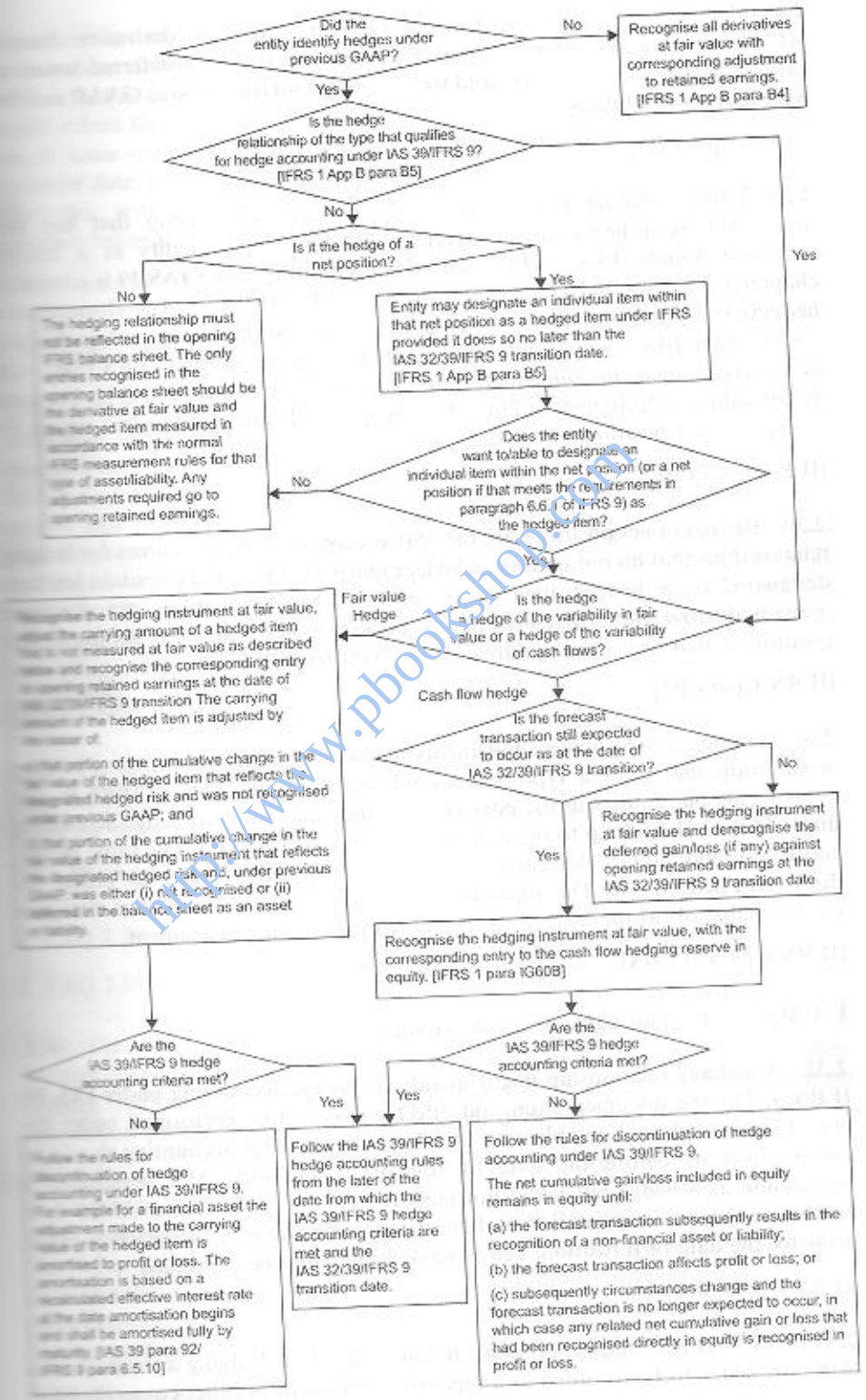

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