Grant Thornton

Technical Accounting Alert

Amendments to IFRS 1: Additional Exemptions for First-time Adopters

Introduction

On 23 July 2009, the IASB published *Additional Exemptions for First-time Adopters (Amendments to IFRS 1)*. The publication amends IFRS 1 to address potential challenges for jurisdictions adopting IFRS in the near future. These amendments offer relief from retrospective application of IFRSs in selected areas, to ensure that entities applying IFRSs will not face undue cost or effort in the transition period.

Relevant standards

References are made to standards issued by the International Accounting Standards Board. The Australian equivalent to each standard included in this alert is shown below:

International Standard reference	Australian equivalent standard
IFRS 1 First-time Adoption of International Financial Reporting Standards	AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards
IFRS 6 Exploration for and Evaluation of Mineral Resources	AASB 6 Exploration for and Evaluation of Mineral Resources
IFRIC 4 Determining whether an Arrangement contains a Lease	Interpretation 4 Determining whether an Arrangement contains a Lease
IAS 36 Impairment of Assets	AASB 136 Impairment of Assets
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	AASB 137 Provisions, Contingent Liabilities and Contingent Assets

The Amendments

Background

Appendix D of IFRS 1 grants limited exemptions from retrospective application of specified areas of IFRSs to entities adopting IFRS for the first time where the cost would be likely to exceed the benefits to users of financial statements. IFRS 1 also prohibits retrospective application of IFRSs 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.

Amendments to IFRS1 makes additional exemptions available to entities in their initial adoption of IFRS. These amendments specifically relate to the measurement of deemed cost for certain oil and gas assets, and decommissioning liabilities included in that deemed cost. Another amendment addresses the timing of the determination of whether an arrangement contains a lease.

Summary of the main amendments

Deemed Cost

A first-time adopter, which has previously accounted for its exploration and development costs for oil and gas properties in cost centres that include all properties in a large geographical area, may elect to measure such assets on the date of transition on the following basis:

- exploration and evaluation assets at the amount determined under the entity's previous GAAP; and
- assets in the development or production phases at the amount determined for the cost centre under the entity's previous GAAP. The entity shall allocate this amount to the cost centre's underlying assets pro rata using reserve volumes or reserve values as of that date. If the entity uses this exemption, it discloses that fact and the basis on which carrying amounts determined under the previous GAAP were allocated.

At the date of transition, the entity tests exploration and evaluation assets in the development and production phases for impairment in accordance with IFRS 6 *Exploration for and Evaluation of Mineral Resources* or IAS 36 *Impairment of Assets* respectively and, if necessary, reduces the amount determined above.

Decommissioning Liabilities

An entity which uses the deemed cost exemption relating to oil and gas assets, as discussed above:

- measures decommissioning, restoration and similar liabilities as of the transition date in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- recognises directly in retained earnings any difference between the amount measured under IAS 37 and the carrying amount of those liabilities under the entity's previous GAAP.

Leases

If a first-time adopter made the same determination of whether an arrangement contained a lease in accordance with its previous GAAP as that required by IFRIC *4 Determining whether an Arrangement contains a Lease*, but at a date other than that required by IFRIC 4, the entity need not reassess that determination on the date of transition to IFRS.

Effective date

Amendments to IFRS 1 should be applied for annual periods beginning on or after 1 January 2010. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

Grant Thornton comment

The additional exemptions included in *Amendments to IFRS 1* address impediments to the adoption of IFRS in certain jurisdictions, and aim to offer a pragmatic solution to them that will reduce the costs for first-time adopters. We agree that the additional exemptions are justifiable based on the objectives of IFRS 1, which necessarily include compromised solutions intended to strike an appropriate balance between costs of first-time adoption and benefits to users.

Further information

For further information on any of the information included in this TA alert, please contact your local Grant Thornton Australia contact member or a member of the National Audit Support team at NAS@grantthornton.com.au