IMPLEMENTATION GUIDANCE

SB-FRS 101

Guidance on Implementing

First-time Adoption of Statutory Board Financial Reporting Standards

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This guidance accompanies, but is not part of, SB-FRS 101.

INTRODUCTION

IG1 This implementation guidance:

(a) explains how the requirements of the SB-FRS interact with the requirements of some other SB-FRSs (paragraphs IG2-IG62, IG64 and IG65). This explanation addresses those SB-FRSs that are most likely to involve questions that are specific to first-time adopters.

(b) includes an illustrative example to show how a first-time adopter might disclose how the transition to SB-FRSs affected its reported financial position, financial performance and cash flows, as required by paragraphs 39(a) and (b), 40 and 41 of the SB-FRS (paragraph IG63).

SB-FRS 10 *Events after the Balance Sheet Date*

IG2 Except as described in paragraph IG3, an entity applies SB-FRS 10 in determining whether:

(a) its opening SB-FRS balance sheet reflects an event that occurred after the date of transition to SB-FRSs; and

(b) comparative balance sheet amounts in its first SB-FRS financial statements reflect an event that occurred after the end of that comparative period.

IG3 Paragraphs 31-34 of the SB-FRS require some modifications to the principles in SB-FRS 10 when a first-time adopter determines whether changes in estimates are adjusting or non-adjusting events at the date of transition to SB-FRSs (or, when applicable, the end of the comparative period). Cases 1 and 2 below illustrate those modifications. In case 3 below, paragraphs 31-34 of the SB-FRS do not require modifications to the principles in SB-FRS 10.

(a) Case 1 - Previous GAAP required estimates of similar items for the date of transition to SB-FRSs, using an accounting policy that is consistent with SB-FRSs. In this case, the estimates under SB-FRSs need to be consistent with estimates made for that date under previous GAAP, unless there is objective evidence that those estimates were in error (see SB-FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*). The entity reports later revisions to those estimates as events of the period in which it makes the revisions, rather than as adjusting events resulting from the receipt of further evidence about conditions that existed at the date of transition to SB-FRSs.

(b) Case 2 - Previous GAAP required estimates of similar items for the date of transition to SB-FRSs, but the entity made those estimates using accounting policies that are not consistent with its accounting policies under SB-FRSs. In this case, the estimates under SB-FRSs need to be consistent with the estimates required under previous GAAP for that date (unless there is objective evidence that those estimates were in error), after adjusting for the difference in accounting policies. The opening SB-FRS balance sheet reflects those adjustments for the difference in accounting policies. As in case 1, the entity reports later revisions to those estimates as events of the period in which it makes the revisions.

For example, previous GAAP may have required an entity to recognise and measure provisions on a basis consistent with SB-FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*, except that the previous GAAP measurement was on an undiscounted basis. In this example, the entity uses the estimates under previous GAAP as inputs in making the discounted measurement required by SB-FRS 37.

(c) Case 3 - Previous GAAP did not require estimates of similar items for the date of transition to SB-FRSs. Estimates under SB-FRSs for that date reflect conditions existing at that date. In particular, estimates of market prices, interest rates or foreign exchange rates at the date of transition to SB-FRSs reflect market conditions at that date. This is consistent with the distinction in SB-FRS 10 between adjusting events after the balance sheet date and non-adjusting events after the balance sheet date.

IG Example 1: Estimates

BACKGROUND

Entity A's first SB-FRS financial statements have a reporting date of 31 December 2005 and include comparative information for one year. In its previous GAAP financial statements for 31 December 2003 and 2004, entity A:

(a) made estimates of accrued expenses and provisions at those dates;

(b) accounted on a cash basis for a defined benefit pension plan; and

(c) did not recognise a provision for a court case arising from events that occurred in September 2004. When the court case was concluded on 30 June 2005, entity A was required to pay 1,000 and paid this on 10 July 2005.

In preparing its first SB-FRS financial statements, entity A concludes that its estimates under previous GAAP of accrued expenses and provisions at 31 December 2003 and 2004 were made on a basis consistent with its accounting policies under SB-FRSs. Although some of the accruals and provisions turned out to be overestimates and others to be underestimates, entity A concludes that its estimates were reasonable and that, therefore, no error had occurred. As a result, accounting for those over- and underestimates involves the routine adjustment of estimates under SB-FRS 8.

APPLICATION OF REQUIREMENTS

In preparing its opening SB-FRS balance sheet at 1 January 2004 and in its comparative balance sheet at 31 December 2004, entity A:

(a) does not adjust the previous estimates for accrued expenses and provisions; and

(d) makes estimates (in the form of actuarial assumptions) necessary to account for the pension plan under SB-FRS 19 *Employee Benefits*. Entity A's actuarial assumptions at 1 January 2004 and 31 December 2004 do not reflect conditions that arose after those dates. For example, entity A's:

   (i) discount rates at 1 January 2004 and 31 December 2004 for the pension plan and for provisions reflect market conditions at those dates; and

   (ii) actuarial assumptions at 1 January 2004 and 31 December 2004 about future employee turnover rates do not reflect conditions that arose after those dates—such as a significant increase in estimated employee turnover rates as a result of a curtailment of the pension plan in 2005.

The treatment of the court case at 31 December 2004 depends on the reason why entity A did not recognise a provision under previous GAAP at that date.

ASSUMPTION 1 – Previous GAAP was consistent with SB-FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Entity A concluded that the recognition criteria were not met. In this case, entity A's assumptions under SB-FRSs are consistent with its assumptions under previous GAAP. Therefore, entity A does not recognise a provision at 31 December 2004.

ASSUMPTION 2 – Previous GAAP was not consistent with SB-FRS 37. Therefore, entity A develops estimates under SB-FRS 37. Under SB-FRS 37, an entity determines whether an obligation exists at the balance sheet date by taking account of all available evidence, including any additional evidence provided by events after the balance sheet date. Similarly, under SB-FRS 10 *Events after the Balance Sheet Date*, the resolution of a court case after the balance sheet date is an adjusting event after the balance sheet date if it confirms that the entity had a present obligation at that date. In this instance, the resolution of the court case confirms that entity A had a liability in September 2004 (when the events occurred that gave rise to the court case). Therefore, entity A recognises a provision at 31 December 2004. Entity A measures that provision by discounting the 1,000 paid on 10 July 2005 to its present value, using a discount rate that complies with SB-FRS 37 and reflects market conditions at 31 December 2004.

IG4 Paragraphs 31-34 of the SB-FRS do not override requirements in other SB-FRSs that base classifications or measurements on circumstances existing at a particular date. Examples include:

(a) the distinction between finance leases and operating leases (see SB-FRS 17 *Leases*);

(b) the restrictions in SB-FRS 38 *Intangible Assets* that prohibit capitalisation of expenditure on an internally generated intangible asset if the asset did not qualify for recognition when the expenditure was incurred; and

(c) the distinction between financial liabilities and equity instruments (see SB-FRS 32 *Financial Instruments: Disclosure and Presentation*).

SB-FRS 12 *Income Taxes*

IG5 An entity applies SB-FRS 12 to temporary differences between the carrying amount of the assets and liabilities in its opening SB-FRS balance sheet and their tax bases.

IG6 Under SB-FRS 12, the measurement of current and deferred tax reflects tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. An entity accounts for the effect of changes in tax rates and tax laws when those changes are enacted or substantively enacted.

SB-FRS 16 *Property, Plant and Equipment* [*]

IG7 If an entity's depreciation methods and rates under previous GAAP are acceptable under SB-FRSs, it accounts for any change in estimated useful life or depreciation pattern prospectively from when it makes that change in estimate (paragraphs 31 and 32 of the SB-FRS and paragraph 61 of SB-FRS 16). However, in some cases, an entity's depreciation methods and rates under previous GAAP may differ from those that would be acceptable under SB-FRSs (for example, if they were adopted solely for tax purposes and do not reflect a reasonable estimate of the asset's useful life). If those differences have a material effect on the financial statements, the entity adjusts accumulated depreciation in its opening SB-FRS balance sheet retrospectively so that it complies with SB-FRSs.

IG8 An entity may elect to use one of the following amounts as the deemed cost of an item of property, plant and equipment:

(a) fair value at the date of transition to SB-FRSs (paragraph 16 of the SB-FRS), in which case the entity gives the disclosures required by paragraph 44 of the SB-FRS;

(b) a revaluation under previous GAAP that meets the criteria in paragraph 17 of the SB-FRS; or

[*] as revised in 2004

(c) fair value at the date of an event such as a privatisation or initial public offering (paragraph 19 of the SB-FRS).

IG9 Subsequent depreciation is based on that deemed cost and starts from the date for which the entity established the fair value measurement or revaluation.

IG10 If an entity chooses as its accounting policy the revaluation model in SB-FRS 16 for some or all classes of property, plant and equipment, it presents the cumulative revaluation surplus as a separate component of equity. The revaluation surplus at the date of transition to SB-FRSs is based on a comparison of the carrying amount of the asset at that date with its cost or deemed cost. If the deemed cost is the fair value at the date of transition to SB-FRSs, the entity gives the disclosures required by paragraph 44 of the SB-FRS.

IG11 If revaluations under previous GAAP did not satisfy the criteria in paragraph 17 or 19 of the SB-FRS, an entity measures the revalued assets in its opening balance sheet on one of the following bases:

(a) cost (or deemed cost) less any accumulated depreciation and any accumulated impairment losses under the cost model in SB-FRS 16;

(b) deemed cost, being the fair value at the date of transition to SB-FRSs (paragraph 16 of the SB-FRS); or

(c) revalued amount, if the entity adopts the revaluation model in SB-FRS 16 as its accounting policy under SB-FRSs for all items of property, plant and equipment in the same class.

IG12 SB-FRS 16 requires each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item to be depreciated separately. However, SB-FRS 16 does not prescribe the unit of measure for recognition of an asset, i.e. what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances (see SB-FRS 16, paragraphs 9 and 43).

IG13 In some cases, the construction or commissioning of an asset results in an obligation for an entity to dismantle or remove the asset and restore the site on which the asset stands. An entity applies SB-FRS 37 *Provisions, Contingent Liabilities and Contingent Assets* in recognising and measuring any resulting provision. The entity applies SB-FRS 16 in determining the resulting amount included in the cost of the asset, before depreciation and impairment losses. Items such as depreciation and, when applicable, impairment losses cause differences between the carrying amount of the provision and the amount included in the carrying amount of the liability and the amount included in the carrying amount of the asset. An entity accounts for changes in such liabilities in accordance with INT SB-FRS 101 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. However, paragraph 25E of SB-FRS 101 provides an exemption for changes that occurred before the date of transition to SB-FRSs, and prescribes an alternative treatment where the exemption is used. An example of the first-time adoption of INT SB-FRS 101, which illustrates the use of this exemption, is given at paragraphs IG201-IG203.

SB-FRS 17 *Leases*[*]

IG14 At the date of transition to SB-FRSs, a lessee or lessor classifies leases as operating leases or finance leases on the basis of circumstances existing at the inception of the lease (SB-FRS 17, paragraph 10). In some cases, the lessee and the lessor may agree to change the provisions of the lease, other than by renewing the lease, in a manner that would have resulted in a different classification under SB-FRS 17 had the changed terms been in effect at the inception of the lease. If so, the revised agreement is considered as a new agreement over its term. However, changes in estimates (for example, changes in estimates of the

[*] as revised in 2004

economic life or of the residual value of the leased property) or changes in circumstances (for example, default by the lessee) do not give rise to a new classification of a lease.

IG15 When the predecessor of SB-FRS 17(SAS 15) was revised in 1999, the net cash investment method for recognising finance income of lessors was eliminated. SB-FRS 17 permits finance lessors to eliminate this method prospectively. However, the transitional provisions in SB-FRS 17 do not apply to an entity's opening SB-FRS balance sheet (paragraph 9 of the SB-FRS). Therefore, a finance lessor measures finance lease receivables in its opening SB-FRS balance sheet as if the net cash investment method had never been permitted.

IG16 INT SB-FRS 15 *Operating Leases—Incentives* applies to lease terms beginning on or after 1 February 2003. However, a first-time adopter applies INT SB-FRS 15 to all leases, whether they started before or after that date.

SB-FRS 18 *Revenue*

IG17 If an entity has received amounts that do not yet qualify for recognition as revenue under SB-FRS 18 (for example, the proceeds of a sale that does not qualify for revenue recognition), the entity recognises the amounts received as a liability in its opening SB-FRS balance sheet and measures that liability at the amount received.

SB-FRS 19 *Employee Benefits*

IG18 At the date of transition to SB-FRSs, an entity applies SB-FRS 19 in measuring net employee benefit assets or liabilities under defined benefit plans, but it may elect to recognise all cumulative actuarial gains or losses from the inception of the plan until the date of transition to SB-FRSs even if its accounting policy under SB-FRS 19 will involve leaving some later actuarial gains and losses unrecognised (paragraph 20 of the SB-FRS). The transitional provisions in SB-FRS 19 do not apply to an entity's opening SB-FRS balance sheet (paragraph 9 of the SB-FRS).

IG19 An entity's actuarial assumptions at the date of transition to SB-FRSs are consistent with actuarial assumptions made for the same date under previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those assumptions were in error (paragraph 31 of the SB-FRS). The impact of any later revisions to those assumptions is an actuarial gain or loss of the period in which the entity makes the revisions.

IG20 An entity may need to make actuarial assumptions at the date of transition to SB-FRSs that were not necessary under its previous GAAP. Such actuarial assumptions do not reflect conditions that arose after the date of transition to SB-FRSs. In particular, discount rates and the fair value of plan assets at the date of transition to SB-FRSs reflect market conditions at that date. Similarly, the entity's actuarial assumptions at the date of transition to SB-FRSs about future employee turnover rates do not reflect a significant increase in estimated employee turnover rates as a result of a curtailment of the pension plan that occurred after the date of transition to SB-FRSs (paragraph 32 of the SB-FRS).

IG21 In many cases, an entity's first SB-FRS financial statements will reflect measurements of employee benefit obligations at three dates: the reporting date, the date of the comparative balance sheet and the date of transition to SB-FRSs. SB-FRS 19 encourages an entity to involve a qualified actuary in the measurement of all material post-employment benefit obligations. To minimise costs, an entity may request a qualified actuary to carry out a detailed actuarial valuation at one or two of these dates and roll the valuation(s) forward or back to the other date(s). Any such roll forward or roll back reflects any material transactions and other material events (including changes in market prices and interest rates) between those dates (SB-FRS 19, paragraph 57).

SB-FRS 21 The Effects of Changes in Foreign Exchange Rates*

IG21A An entity may, under previous GAAP, have treated goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign Operation as assets and liabilities of the entity rather than as assets and liabilities of the foreign operation. If so, the entity is permitted to apply prospectively the requirements of paragraph 47 of SB-FRS 21 to all acquisitions occurring after the date of transition to SB-FRSs.

SB-FRS 103 *Business Combinations*

IG22 The following examples illustrate the effect of Appendix B of the SB-FRS, assuming that a first-time adopter uses the exemption.

IG Example 2: Business combination

BACKGROUND

Entity B's first SB-FRS financial statements have a reporting date of 31 December 2005 and include comparative information for 2004 only. On 1 July 2001, entity B acquired 100 per cent of subsidiary C. Under its previous GAAP, entity B:

(a) classified the business combination as an acquisition by entity B.

(b) measured the assets acquired and liabilities assumed at the following amounts under previous GAAP at 31 December 2003 (date of transition to SB-FRSs):

   (i) identifiable assets less liabilities for which SB-FRSs require cost-based measurement at a date after the business combination: 200 (with a tax base of 150 and an applicable tax rate of 30 per cent).

   (ii) pension liability (for which the present value of the defined benefit obligation measured under SB-FRS 19 *Employee Benefits* is 130 and the fair value of plan assets is 100): nil (because entity B used a pay-as-you-go cash method of accounting for pensions under its previous GAAP). The tax base of the pension liability is also nil.

   (iii) goodwill: 180.

(c) did not, at the date of acquisition, recognise deferred tax arising from temporary differences associated with the identifiable assets acquired and liabilities assumed.

APPLICATION OF REQUIREMENTS

In its opening (consolidated) SB-FRS balance sheet, entity B:

(a) classifies the business combination as an acquisition by entity B even if the business combination would have qualified under SB-FRS 103 as a reverse acquisition by subsidiary C (paragraph B2(a) of the SB-FRS).

(b) does not adjust the accumulated amortisation of goodwill. Entity B tests the goodwill for impairment under SB-FRS 36 *Impairment of Assets* and recognises any resulting impairment loss, based on conditions that existed at the date of transition to SB-FRSs. If no impairment exists, the carrying amount of the goodwill remains at 180 (paragraph B2(g)).

(c) for those net identifiable assets acquired for which SB-FRSs require cost-based measurement at a date after the business combination, treats their carrying amount under previous GAAP immediately after the business combination as their deemed cost at that date (paragraph B2(e)).

* as revised in 2004

(d) does not restate the accumulated depreciation and amortisation of the net identifiable assets in (c), unless the depreciation methods and rates under previous GAAP result in amounts that differ materially from those required under SB-FRSs (for example, if they were adopted solely for tax purposes and do not reflect a reasonable estimate of the asset's useful life under SB-FRSs). If no such restatement is made, the carrying amount of those assets in the opening SB-FRS balance sheet equals their carrying amount under previous GAAP at the date of transition to SB-FRSs (200) (paragraph IG7).

(e) if there is any indication that identifiable assets are impaired, tests those assets for impairment, based on conditions that existed at the date of transition to SB-FRSs (see SB-FRS 36).

(f) recognises the pension liability, and measures it, at the present value of the defined benefit obligation (130) less the fair value of the plan assets (100), giving a carrying amount of 30, with a corresponding debit of 30 to retained earnings (paragraph B2(d)). However, if subsidiary C had already adopted SB-FRSs in an earlier period, entity B would measure the pension liability at the same amount as in subsidiary C's financial statements (paragraph 25 of the SB-FRS and IG Example 9).

(g) recognises a net deferred tax liability of 6 (20 at 30 per cent) arising from:

  (i) the taxable temporary difference of 50 (200 less 150) associated with the identifiable assets acquired and non-pension liabilities assumed, less

  (ii) the deductible temporary difference of 30 (30 less nil) associated with the pension liability.

  The entity recognises the resulting increase in the deferred tax liability as a deduction from retained earnings (paragraph B2(k) of the SB-FRS). If a taxable temporary difference arises from the initial recognition of the goodwill, entity B does not recognise the resulting deferred tax liability (paragraph 15(a) of SB-FRS 12 *Income Taxes*).

IG Example 3: Business combination — restructuring provision

BACKGROUND

Entity D's first SB-FRS financial statements have a reporting date of 31 December 2005 and include comparative information for 2004 only. On 1 July 2003, entity D acquired 100 per cent of subsidiary E. Under its previous GAAP, entity D recognised an (undiscounted) restructuring provision of 100 that would not have qualified as an identifiable liability under SB-FRS 103. The recognition of this restructuring provision increased goodwill by 100. At 31 December 2003 (date of transition to SB-FRSs), entity D:

(a) had paid restructuring costs of 60; and

(b) estimated that it would pay further costs of 40 in 2004, and that the effects of discounting were immaterial. At 31 December 2003, those further costs did not qualify for recognition as a provision under SB-FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

APPLICATION OF REQUIREMENTS

In its opening SB-FRS balance sheet, entity D:

(a) does not recognise a restructuring provision (paragraph B2(c) of the SB-FRS).

(b) does not adjust the amount assigned to goodwill. However, entity D tests the goodwill for impairment under SB-FRS 36 *Impairment of Assets*, and recognises any resulting impairment loss (paragraph B2(g)).

(c) as a result of (a) and (b), reports retained earnings in its opening SB-FRS balance sheet that are higher by 40 (before income taxes, and before recognising any impairment loss) than in

the balance sheet at the same date under previous GAAP.

IG Example 4: Business combination — intangible assets

BACKGROUND

Entity F's first SB-FRS financial statements have a reporting date of 31 December 2005 and include comparative information for 2004 only. On 1 July 2001, entity F acquired 75 per cent of subsidiary G. Under its previous GAAP, entity F assigned an initial carrying amount of 200 to intangible assets that would not have qualified for recognition under SB-FRS 38 *Intangible Assets*. The tax base of the intangible assets was nil, giving rise to a deferred tax liability (at 30 per cent) of 60.

On 31 December 2003 (the date of transition to SB-FRSs), the carrying amount of the intangible assets under previous GAAP was 160, and the carrying amount of the related deferred tax liability was 48 (30 per cent of 160).

APPLICATION OF REQUIREMENTS

Because the intangible assets do not qualify for recognition as separate assets under SB-FRS 38, entity F transfers them to goodwill, together with the related deferred tax liability (48) and minority interests (paragraph B2(g)(i) of the SB-FRS). The related minority interests amount to 28 (25 per cent of [160 - 48 = 112]). Thus, the increase in goodwill is 84 — intangible assets (160) less deferred tax liability (48) less minority interests (28).

Entity F tests the goodwill for impairment under SB-FRS 36 *Impairment of Assets* and recognises any resulting impairment loss, based on conditions that existed at the date of transition to SB-FRSs (paragraph B2(g)(iii) of the SB-FRS).

IG Example 5: Business combination — goodwill deducted from equity and treatment of related intangible assets

BACKGROUND

Entity H acquired a subsidiary before the date of transition to SB-FRSs. Under its previous GAAP, entity H:

(a) recognised goodwill as an immediate deduction from equity;

(b) recognised an intangible asset of the subsidiary that does not qualify for recognition as an asset under SB-FRS 38; and

(c) did not recognise an intangible asset of the subsidiary that would qualify under SB-FRS 38 *Intangible Assets* for recognition as an asset in the financial statements of the subsidiary. The subsidiary held the asset at the date of its acquisition by entity H.

APPLICATION OF REQUIREMENTS

In its opening SB-FRS balance sheet, entity H:

(a) does not recognise the goodwill, as it did not recognise the goodwill as an asset under previous GAAP (paragraph B2(g)–B2(i)).

(b) does not recognise the intangible asset that does not qualify for recognition as an asset under SB-FRS 38. Because entity H deducted goodwill from equity under its previous GAAP, the elimination of this intangible asset reduces retained earnings (paragraph B2(c)(ii)).

(c) recognises the intangible asset that qualifies under SB-FRS 38 for recognition as an asset in the financial statements of the subsidiary, even though the amount assigned to it under previous GAAP in entity H's consolidated financial statements was nil (paragraph B2(f)). The recognition criteria in SB-FRS 38 include the availability of a reliable measurement of cost (paragraphs IG45-IG48) and entity H measures the asset at cost less accumulated depreciation and less any impairment losses identified under SB-FRS 36. Because entity H deducted goodwill from equity under its previous GAAP, the recognition of this intangible asset increases retained earnings (paragraph B2(c)(ii)). However, if this intangible asset had been subsumed in goodwill recognised as an asset under previous GAAP, entity H would have decreased the carrying amount of that goodwill accordingly (and, if applicable, adjusted deferred tax and minority interests) (paragraph B2(g)(i)).

IG Example 6: Business combination — subsidiary not consolidated under previous GAAP

BACKGROUND

Parent J's date of transition to SB-FRSs is 1 January 2004. Under its previous GAAP, parent J did not consolidate its 75 per cent subsidiary K, acquired in a business combination on 15 July 2001. On 1 January 2004:

(a) the cost of parent J's investment in subsidiary K is 180.

(b) under SB-FRSs, subsidiary K would measure its assets at 500 and its liabilities (including deferred tax under SB-FRS 12) at 300. On this basis, subsidiary K's net assets are 200 under SB-FRSs.

APPLICATION OF REQUIREMENTS

Parent J consolidates subsidiary K. The consolidated balance sheet at 1 January 2004 includes:

(a) subsidiary K's assets at 500 and liabilities at 300;

(b) minority interests of 50 (25 per cent of [500-300]); and

(c) goodwill of 30 (cost of 180 less 75 per cent of [500-300]) (paragraph B2(j)). Parent J tests the goodwill for impairment under SB-FRS 36 *Impairment of Assets* and recognises any resulting impairment loss, based on conditions that existed at the date of transition to SB-FRSs (paragraph B2(g)(iii)).

IG Example 7: Business combination — finance lease not capitalised under previous GAAP

BACKGROUND

Parent L's date of transition to SB-FRSs is 1 January 2004. Parent L acquired subsidiary M on 15 January 2001 and did not capitalise subsidiary M's finance leases. If subsidiary M prepared financial statements under SB-FRSs, it would recognise finance lease obligations of 300 and leased assets of 250 at 1 January 2004.

APPLICATION OF REQUIREMENTS

In its consolidated opening SB-FRS balance sheet, parent L recognises finance lease obligations of 300 and leased assets of 250, and charges 50 to retained earnings (paragraph B2(f)).

SB-FRS 23 *Borrowing Costs*

IG23 On first adopting SB-FRSs, an entity adopts a policy of capitalising borrowing costs (SB-FRS 23 allowed alternative treatment) or not capitalising them (SB-FRS 23 benchmark treatment).

The entity applies that policy consistently in its opening SB-FRS balance sheet and in all periods presented in its first SB-FRS financial statements. However, if the entity established a deemed cost for an asset, the entity does not capitalise borrowing costs incurred before the date of the measurement that established the deemed cost.

IG24 Under the allowed alternative treatment, SB-FRS 23 requires disclosure of interest capitalised during the period. Neither SB-FRS 23 nor the SB-FRS requires disclosure of the cumulative amount capitalised.

IG25 SB-FRS 23 contains transitional provisions that encourage retrospective application, but permit an entity that adopts the allowed alternative treatment to capitalise (prospectively) only those borrowing costs incurred after the effective date of SB-FRS 23 that meet the criteria for capitalisation. However, if a first-time adopter adopts the SB-FRS 23 allowed alternative treatment, the SB-FRS requires retrospective application of that treatment, even for periods before the effective date of SB-FRS 23 (paragraph 9 of the SB-FRS).

SB-FRS 27 *Consolidated and Separate Financial Statements*

IG26 A first-time adopter consolidates all subsidiaries that it controls, unless SB-FRS 27 requires otherwise.

IG27 If a first-time adopter did not consolidate a subsidiary under previous GAAP, then:

(a) in its consolidated financial statements, the first-time adopter measures the subsidiary's assets and liabilities at the same carrying amounts as in the SB-FRS financial statements of the subsidiary, after adjusting for consolidation procedures and for the effects of the business combination in which it acquired the subsidiary (paragraph 25 of the SB-FRS). If the subsidiary has not adopted SB-FRSs in its financial statements, the carrying amounts described in the previous sentence are those that SB-FRSs would require in those financial statements (paragraph B2(j) of the SB-FRS).

(b) if the parent acquired the subsidiary in a business combination before the date of transition to SB-FRS, the parent recognises goodwill, as explained in IG Example 6.

(c) if the parent did not acquire the subsidiary in a business combination because it created the subsidiary, the parent does not recognise goodwill.

IG28 When a first-time adopter adjusts the carrying amounts of assets and liabilities of its subsidiaries in preparing its opening SB-FRS balance sheet, this may affect minority interests and deferred tax.

IG29 IG Examples 8 and 9 illustrate paragraphs 24 and 25 of the SB-FRS, which address cases where a parent and its subsidiary become first-time adopters at different dates.

IG Example 8: Parent adopts SB-FRSs before subsidiary

BACKGROUND

Parent N presents its (consolidated) first SB-FRS financial statements in 2005. Its foreign subsidiary O, wholly owned by parent N since formation, prepares information under SB-FRSs for internal consolidation purposes from that date, but subsidiary O does not present its first SB-FRS financial statements until 2007.

APPLICATION OF REQUIREMENTS

If subsidiary O applies paragraph 24(a) of the SB-FRS, the carrying amounts of its assets and liabilities are the same in both its opening SB-FRS balance sheet at 1 January 2006 and parent N's consolidated balance sheet (except for adjustments for consolidation procedures) and are based on parent N's date of transition to SB-FRSs.

Alternatively, subsidiary O may, under paragraph 24(b) of the SB-FRS, measure all its assets or liabilities based on its own date of transition to SB-FRSs (1 January 2006). However, the fact that subsidiary O becomes a first-time adopter in 2007 does not change the carrying amounts of its assets and liabilities in parent N's consolidated financial statements.

IG Example 9: Subsidiary adopts SB-FRSs before parent

BACKGROUND

Parent P presents its (consolidated) first SB-FRS financial statements in 2007. Its foreign subsidiary Q, wholly owned by parent P since formation, presented its first SB-FRS financial statements in 2005. Until 2007, subsidiary Q prepared information for internal consolidation purposes under parent P's previous GAAP.

APPLICATION OF REQUIREMENTS

The carrying amounts of subsidiary Q's assets and liabilities at 1 January 2006 are the same in both parent P's (consolidated) opening SB-FRS balance sheet and subsidiary Q's financial statements (except for adjustments for consolidation procedures) and are based on subsidiary Q's date of transition to SB-FRSs. The fact that parent P becomes a first-time adopter in 2007 does not change those carrying amounts (paragraph 25 of the SB-FRS).

IG30 Paragraphs 24 and 25 of the SB-FRS do not override the following requirements:

(a) to apply Appendix B of the SB-FRS to assets acquired, and liabilities assumed, in a business combination that occurred before the acquirer's date of transition to SB-FRSs. However, the acquirer applies paragraph 25 to new assets acquired, and liabilities assumed, by the acquiree after that business combination and still held at the acquirer's date of transition to SB-FRSs.

(b) to apply the rest of the SB-FRS in measuring all assets and liabilities for which paragraphs 24 and 25 are not relevant.

(c) to give all disclosures required by the SB-FRS as of the first-time adopter's own date of transition to SB-FRSs.

IG31 Paragraph 24 of the SB-FRS applies if a subsidiary becomes a first-time adopter later than its parent, for example if the subsidiary previously prepared a reporting package under SB-FRSs for consolidation purposes but did not present a full set of financial statements under SB-FRSs. This may be relevant not only when a subsidiary's reporting package complies fully with the recognition and measurement requirements of SB-FRSs, but also when it is adjusted centrally for matters such as post-balance sheet events review and central allocation of pension costs. For the disclosure required by paragraph 41 of the SB-FRS, adjustments made centrally to an unpublished reporting package are not corrections of errors. However, paragraph 24 does not permit a subsidiary to ignore misstatements that are immaterial to the consolidated financial statements of its parent but material to its own financial statements.

SB-FRS 29 *Financial Reporting in Hyperinflationary Economies*

IG32 An entity complies with SB-FRS 21 *The Effects of Changes in Foreign Exchange Rates* in determining its functional currency and presentation currency. When the entity prepares its opening SB-FRS balance sheet, it applies SB-FRS 29 to any periods during which the economy of the functional currency or presentation currency was hyperinflationary.

IG33 An entity may elect to use the fair value of an item of property, plant and equipment at the date of transition to SB-FRSs as its deemed cost at that date (paragraph 16 of the SB-FRS), in which case it gives the disclosures required by paragraph 44 of the SB-FRS.

IG34 If an entity elects to use the exemptions in paragraphs 16-19 of the SB-FRS, it applies SB-FRS 29 to periods after the date for which the revalued amount or fair value was determined.

SB-FRS 32 *Financial Instruments: Disclosure and Presentation* *

IG35 In its opening SB-FRS balance sheet, an entity applies the criteria in SB-FRS 32 to classify financial instruments issued (or components of compound instruments issued) as either financial liabilities or equity instruments in accordance with the substance of the contractual arrangement when the instrument first satisfied the recognition criteria in SB-FRS 32 (paragraphs 15 and 30), without considering events after that date (other than changes to the terms of the instruments).

IG36 For compound instruments outstanding at the date of transition to SB-FRSs, an entity determines the initial carrying amounts of the components on the basis of circumstances existing when the instrument was issued (SB-FRS 32, paragraph 30). An entity determines those carrying amounts using the version of SB-FRS 32 effective at the reporting date for its first SB-FRS financial statements. If the liability component is no longer outstanding at the date of transition to SB-FRSs, a first-time adopter need not separate the initial equity component of the instrument from the cumulative interest accreted on the liability component (paragraph 28 of the SB-FRS).

SB-FRS 34 *Interim Financial Reporting*

IG37 SB-FRS 34 applies if an entity is required, or elects, to present an interim financial report in accordance with SB-FRSs. Accordingly, neither SB-FRS 34 nor the SB-FRS requires an entity:

(a) to present interim financial reports that comply with SB-FRS 34; or

(b) to prepare new versions of interim financial reports presented under previous GAAP. However, if an entity does prepare an interim financial report under SB-FRS 34 for part of the period covered by its first SB-FRS financial statements, the entity restates the comparative information presented in that report so that it complies with SB-FRSs.

IG38 An entity applies the SB-FRS in each interim financial report that it presents under SB-FRS 34 for part of the period covered by its first SB-FRS financial statements. In particular, paragraph 45 of the SB-FRS requires an entity to disclose various reconciliations (see IG Example 10).

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* as revised in 2004

IG Example 10: Interim financial reporting

BACKGROUND

Entity R's first SB-FRS financial statements have a reporting date of 31 December 2005, and its first interim financial report under SB-FRS 34 is for the quarter ended 31 March 2005. Entity R prepared previous GAAP annual financial statements for the year ended 31 December 2004, and prepared quarterly reports throughout 2004.

APPLICATION OF REQUIREMENTS

In each quarterly interim financial report for 2005, entity R includes reconciliations of:

(a) its equity under previous GAAP at the end of the comparable quarter of 2004 to its equity under SB-FRSs at that date; and

(b) its profit or loss under previous GAAP for the comparable quarter of 2004 (current and year-to-date) to its profit or loss under SB-FRSs.

In addition to the reconciliations required by (a) and (b) and the disclosures required by SB-FRS 34, entity R's interim financial report for the first quarter of 2005 includes reconciliations of (or a cross-reference to another published document that includes these reconciliations):

(a) its equity under previous GAAP at 1 January 2004 and 31 December 2004 to its equity under SB-FRSs at those dates; and

(b) its profit or loss for 2004 under previous GAAP to its profit or loss for 2004 under SB-FRSs.

Each of the above reconciliations gives sufficient detail to enable users to understand the material adjustments to the balance sheet and income statement. Entity R also explains the material adjustments to the cash flow statement.

If entity R becomes aware of errors made under previous GAAP, the reconciliations distinguish the correction of those errors from changes in accounting policies.

If entity R did not, in its most recent annual financial statements under previous GAAP, disclose information material to an understanding of the current interim period, its interim financial reports for 2005 disclose that information or include a cross-reference to another published document that includes it (paragraph 46 of the SB-FRS).

SB-FRS 36 *Impairment of Assets* and SB-FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*

IG39 An entity applies SB-FRS 36 in:

(a) determining whether any impairment loss exists at the date of transition to SB-FRSs; and

(b) measuring any impairment loss that exists at that date, and reversing any impairment loss that no longer exists at that date. An entity's first SB-FRS financial statements include the disclosures that SB-FRS 36 would have required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to SB-FRSs (paragraph 39(c) of the SB-FRS).

IG40 The estimates used to determine whether an entity recognises an impairment loss or provision (and to measure any such impairment loss or provision) at the date of transition to SB-FRSs are consistent with estimates made for the same date under previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error (paragraphs 31 and 32 of the SB-FRS). The entity reports the impact of any later revisions to those estimates as an event of the period in which it makes the revisions.

IG41 In assessing whether it needs to recognise an impairment loss or provision (and in measuring any such impairment loss or provision) at the date of transition to SB-FRSs, an entity may need to make estimates for that date that were not necessary under its previous GAAP. Such estimates and assumptions do not reflect conditions that arose after the date of transition to SB-FRSs (paragraph 33 of the SB-FRS).

IG42 The transitional provisions in SB-FRS 36 and SB-FRS 37 do not apply to an entity's opening SB-FRS balance sheet (paragraph 9 of the SB-FRS).

IG43 SB-FRS 36 requires the reversal of impairment losses in some cases. If an entity's opening SB-FRS balance sheet reflects impairment losses, the entity recognises any later reversal of those impairment losses in the income statement (except when SB-FRS 36 requires the entity to treat that reversal as a revaluation). This applies to both impairment losses recognised under previous GAAP and additional impairment losses recognised on transition to SB-FRSs.

SB-FRS 38 *Intangible Assets* *

IG44 An entity's opening SB-FRS balance sheet:

(a) excludes all intangible assets and other intangible items that do not meet the criteria for recognition under SB-FRS 38 at the date of transition to SB-FRSs; and

(b) includes all intangible assets that meet the recognition criteria in SB-FRS 38 at that date, except for intangible assets acquired in a business combination that were not recognised in the acquirer's consolidated balance sheet under previous GAAP and also would not qualify for recognition under SB-FRS 38 in the separate balance sheet of the acquiree (see paragraph B2(f) of Appendix B of the SB-FRS).

IG45 The criteria in SB-FRS 38 require an entity to recognise an intangible asset if, and only if:

(a) it is probable that the future economic benefits that are attributable to the asset will flow to the entity; and

(b) the cost of the asset can be measured reliably.

SB-FRS 38 supplements these two criteria with further, more specific, criteria for internally generated intangible assets.

IG46 Under paragraphs 65 and 71 of SB-FRS 38, an entity capitalises the costs of creating internally generated intangible assets prospectively from the date when the recognition criteria are met. SB-FRS 38 does not permit an entity to use hindsight to conclude retrospectively that these recognition criteria are met. Therefore, even if an entity concludes retrospectively that a future inflow of economic benefits from an internally generated intangible asset is probable and the entity is able to reconstruct the costs reliably, SB-FRS 38 prohibits it from capitalising the costs incurred before the date when the entity both:

(a) concludes, based on an assessment made and documented at the date of that conclusion, that it is probable that future economic benefits from the asset will flow to the entity; and

(b) has a reliable system for accumulating the costs of internally generated intangible assets when, or shortly after, they are incurred.

IG47 If an internally generated intangible asset qualifies for recognition at the date of transition to SB-FRSs, an entity recognises the asset in its opening SB-FRS balance sheet even if it had recognised the related expenditure as an expense under previous GAAP. If the asset does not qualify for recognition under SB-FRS 38 until a later date, its cost is the sum of the expenditure incurred from that later date.

* as revised in 2004

IG48 The criteria discussed in paragraph IG45 also apply to an intangible asset acquired separately. In many cases, contemporaneous documentation prepared to support the decision to acquire the asset will contain an assessment of the future economic benefits. Furthermore, as explained in paragraph 26 of SB-FRS 38, the cost of a separately acquired intangible asset can usually be measured reliably.

IG49 For an intangible asset acquired in a business combination before the date of transition to SB-FRSs, its carrying amount under previous GAAP immediately after the business combination is its deemed cost under SB-FRSs at that date (paragraph B2(e) of the SB-FRS). If that carrying amount was zero, the acquirer does not recognise the intangible asset in its consolidated opening SB-FRS balance sheet, unless it would qualify under SB-FRS 38, applying the criteria discussed in paragraphs IG45-IG48, for recognition at the date of transition to SB-FRSs in the balance sheet of the acquiree (paragraph B2(f) of the SB-FRS). If those recognition criteria are met, the acquirer measures the asset on the basis that SB-FRS 38 would require in the balance sheet of the acquiree. The resulting adjustment affects goodwill (paragraph B2(g)(i) of the SB-FRS).

IG50 A first-time adopter may elect to use the fair value of an intangible asset at the date of an event such as a privatisation or initial public offering as its deemed cost at the date of that event (paragraph 19 of the SB-FRS), provided that the intangible asset qualifies for recognition under SB-FRS 38 (paragraph 10 of the SB-FRS). In addition, if, and only if, an intangible asset meets both the recognition criteria in SB-FRS 38 (including reliable measurement of original cost) and the criteria in SB-FRS 38 for revaluation (including the existence of an active market), a first-time adopter may elect to use one of the following amounts as its deemed cost (paragraph 18 of the SB-FRS):

(a) fair value at the date of transition to SB-FRSs (paragraph 16 of the SB-FRS), in which case the entity gives the disclosures required by paragraph 44 of the SB-FRS; or

(b) a revaluation under previous GAAP that meets the criteria in paragraph 17 of the SB-FRS.

IG51 If an entity's amortisation methods and rates under previous GAAP would be acceptable under SB-FRSs, the entity does not restate the accumulated amortisation in its opening SB-FRS balance sheet. Instead, the entity accounts for any change in estimated useful life or amortisation pattern prospectively from the period when it makes that change in estimate (paragraph 31 of the SB-FRS and paragraph 104 of SB-FRS 38). However, in some cases, an entity's amortisation methods and rates under previous GAAP may differ from those that would be acceptable under SB-FRSs (for example, if they were adopted solely for tax purposes and do not reflect a reasonable estimate of the asset's useful life). If those differences have a material effect on the financial statements, the entity adjusts the accumulated amortisation in its opening SB-FRS balance sheet retrospectively so that it complies with SB-FRSs (paragraph 31 of the SB-FRS).

SB-FRS 39 *Financial Instruments: Recognition and Measurement* *

IG52 An entity recognises and measures all financial assets and financial liabilities in its opening SB-FRS balance sheet in accordance with SB-FRS 39, except as specified in paragraphs 27-30 of the SB-FRS, which address derecognition and hedge accounting, and paragraph 36A, which permits an exemption from restating comparative information.

Recognition

IG53 An entity recognises all financial assets and financial liabilities (including all derivatives) that qualify for recognition under SB-FRS 39 and have not yet qualified for derecognition under SB-FRS 39, except non-derivative financial assets and non-derivative financial liabilities derecognised under previous GAAP before 1 January 2005, to which the entity does not

* as revised in 2004

choose to apply paragraph 27A (see paragraph 27 and 27A of the SB-FRS). For example, an entity that does not apply paragraph 27A does not recognise assets transferred in a securitisation, transfer or other derecognition transaction in transactions that occur before 1 January 2005 if those transactions qualified for derecognition under previous GAAP. However, if the entity uses the same securitisation arrangement or other derecognition arrangement for further transfers after 1 January 2005, those further transfers qualify for derecognition only if they meet the derecognition criteria of SB-FRS 39.

IG54 An entity does not recognise financial assets and financial liabilities that do not qualify for recognition under SB-FRS 39, or have already qualified for derecognition under SB-FRS 39.

Embedded derivatives

IG55 When SB-FRS 39 requires an entity to separate an embedded derivative from a host contract, the initial carrying amounts of the components at the date when the instrument first satisfies the recognition criteria in SB-FRS 39 reflect circumstances at that date (SB-FRS 39, paragraph 11). If the entity cannot determine the initial carrying amounts of the embedded derivative and host contract reliably, it treats the entire combined contract as a financial instrument held for trading (SB-FRS 39, paragraph 12). This results in fair value measurement (except when the entity cannot determine a reliable fair value, see SB-FRS 39, paragraph 46(c)), with changes in fair value recognised in profit or loss.

Measurement

IG56 In preparing its opening SB-FRS balance sheet, an entity applies the criteria in SB-FRS 39 to identify those financial assets and financial liabilities that are measured at fair value and those that are measured at amortised cost. In particular:

(a) to comply with SB-FRS 39, paragraph 51, classification of financial assets as held-to-maturity investments relies on a designation made by the entity in applying SB-FRS 39 reflecting the entity's intent and ability at the date of transition to SB-FRSs. It follows that sales or transfers of held-to-maturity investments before the date of transition to SB-FRSs do not trigger the 'tainting' rules in SB-FRS 39, paragraph 9.

(b) to comply with SB-FRS 39, paragraph 9, the category of 'loans and receivables' refers to the circumstances when the financial asset first satisfied the recognition criteria in SB-FRS 39.

(c) under SB-FRS 39, paragraph 9, derivative financial assets and derivative financial liabilities are always deemed held for trading (except for a derivative that is a designated and effective hedging instrument). The result is that an entity measures all derivative financial assets and derivative financial liabilities at fair value.

(d) to comply with SB-FRS 39, paragraph 50, an entity classifies a non-derivative financial asset or non-derivative financial liability in its opening SB-FRS balance sheet as at fair value through profit or loss only if the asset or liability was:

   (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

   (ii) at the date of transition to SB-FRSs, part of a portfolio of identified financial instruments that were managed together and for which there was evidence of a recent actual pattern of short-term profit-taking; or

   (iii) designated as at fair value through profit or loss at the date of transition to SB-FRSs, for an entity that presents its first SB-FRS financial statements for an annual period beginning on or after 1 January 2006.

   (iv) designated as at fair value through profit or loss at the start of its first SB-FRS reporting period, for an entity that presents its first SB-FRS financial statements for an annual period beginning before 1 January 2006 and applies paragraphs 11A, 48A, AG4B-AG4K, AG33A and AG33B and the January 2006 amendments in paragraphs 9, 12 and 13 of SB-FRS 39. If the entity restates comparative information for SB-FRS 39 it shall restate the comparative information only if the financial assets or financial liabilities designated at the start of its first SB-FRS reporting period would have met the criteria for such designation in paragraph 9(b)(i), 9(b)(ii) or 11A of SB-FRS 39 at the date of transition to SB-FRSs or, if acquired after the date of transition to SB-FRSs, would have met the criteria in paragraph 9(b)(i), 9(b)(ii) or 11A at the date of initial recognition. For groups of financial assets, financial liabilities or both that are designated in accordance with paragraph 9(b)(ii) of SB-FRS 39 at the start of the first SB-FRS reporting period, the comparative financial statements should be restated for all the financial assets and financial liabilities within the groups at the date of transition to SB-FRSs even if individual financial assets or liabilities within a group were derecognised during the comparative period.

(e) to comply with SB-FRS 39, paragraph 9, available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale and those non-derivative financial assets that are not in any of the previous categories.

IG57 For those financial assets and financial liabilities measured at amortised cost in the opening SB-FRS balance sheet, an entity determines their cost on the basis of circumstances existing when the assets and liabilities first satisfied the recognition criteria in SB-FRS 39. However, if the entity acquired those financial assets and financial liabilities in a past business combination, their carrying amount under previous GAAP immediately following the business combination is their deemed cost under SB-FRSs at that date (paragraph B2(e) of the SB-FRS).

IG58 An entity's estimates of loan impairments at the date of transition to SB-FRSs are consistent with estimates made for the same date under previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those assumptions were in error (paragraph 31 of the SB-FRS). The entity treats the impact of any later revisions to those estimates as impairment losses (or, if the criteria in SB-FRS 39 are met, reversals of impairment losses) of the period in which it makes the revisions.

IG58A An entity shall treat an adjustment to the carrying amount of a financial asset or financial liability as a transition adjustment to be recognised in the opening balance of retained earnings at the date of transition to SB-FRSs only to the extent that it results from adopting SB-FRS 39. Because all derivatives, other than those that are designated and effective hedging instruments, are classified as held for trading, the differences between the previous carrying amount (which may have been zero) and the fair value of the derivatives are recognised as an adjustment of the balance of retained earnings at the beginning of the financial year in which SB-FRS 39 is initially applied (other than for a derivative that is a designated and effective hedging instrument).

IG58B SB-FRS 8 (as revised in 2004) applies to adjustments resulting from changes in estimates. If an entity is unable to determine whether a particular portion of the adjustment is a transition adjustment or a change in estimate, it treats that portion as a change in accounting estimate under SB-FRS 8, with appropriate disclosures (SB-FRS 8, paragraphs 32-40).

IG59 An entity may, under its previous GAAP, have measured investments at fair value and recognised the revaluation gain directly in equity. If an investment is classified as at fair value through profit or loss, the pre-SB-FRS 39 revaluation gain that had been recognised in equity is reclassified into retained earnings on initial application of SB-FRS 39. If, on initial application of SB-FRS 39, an investment is classified as available for sale, then the pre-SB-FRS 39 revaluation gain is recognised in a separate component of equity. Subsequently, the entity recognises gains and losses on the available-for-sale financial asset in that separate component of equity until the investment is impaired, sold, collected or otherwise disposed of. On subsequent derecognition or impairment of the available-for-sale financial asset, the entity transfers to profit or loss the cumulative gain or loss remaining in equity (SB-FRS 39, paragraph 55(b)).

Hedge accounting

IG60 Paragraphs 28-30 of the SB-FRS deal with hedge accounting. The designation and documentation of a hedge relationship must be completed on or before the date of transition to SB-FRSs if the hedge relationship is to qualify for hedge accounting from that date. Hedge accounting can be applied prospectively only from the date that the hedge relationship is fully designated and documented.

IG60A An entity may, under its previous GAAP, have deferred or not recognised gains and losses on a fair value hedge of a hedged item that is not measured at fair value. For such a fair value hedge, an entity adjusts the carrying amount of the hedged item at the date of transition to SB-FRSs. The adjustment is the lower of:

(a) that portion of the cumulative change in the fair value of the hedged item that reflects the designated hedged risk and was not recognised under previous GAAP; and

(b) that portion of the cumulative change in the fair value of the hedging instrument that reflects the designated hedged risk and, under previous GAAP, was either (i) not recognised or (ii) deferred in the balance sheet as an asset or liability.

IG60B An entity may, under its previous GAAP, have deferred gains and losses on a cash flow hedge of a forecast transaction. If, at the date of transition to SB-FRSs, the hedged forecast transaction is not highly probable, but is expected to occur, the entire deferred gain or loss is recognised in equity. Any net cumulative gain or loss that has been reclassified to equity on initial application of SB-FRS 39 remains in equity until (a) the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, (b) the forecast transaction affects profit or loss or (c) subsequently circumstances change and the forecast transaction is no longer expected to occur, in which case any related net cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the hedging instrument is still held, but the hedge does not qualify as a cash flow hedge under SB-FRS 39, hedge accounting is no longer appropriate starting from the date of transition to SB-FRSs.

SB-FRS 40 *Investment Property*

IG61 An entity that adopts the fair value model in SB-FRS 40 measures its investment property at fair value at the date of transition to SB-FRSs. The transitional requirements of SB-FRS 40 do not apply (paragraph 9 of the SB-FRS).

IG62 An entity that adopts the cost model in SB-FRS 40 applies paragraphs IG7-IG13 on property, plant and equipment.

Explanation of transition to SB-FRSs

IG63 Paragraphs 39(a) and (b), 40 and 41 of the SB-FRS require a first-time adopter to disclose reconciliations that give sufficient detail to enable users to understand the material adjustments to the balance sheet, income statement and, if applicable, cash flow statement. Paragraph 39(a) and (b) requires specific reconciliations of equity and profit or loss. IG Example 11 shows one way of satisfying these requirements.

IG Example 11: Reconciliation of equity and profit or loss

BACKGROUND

An entity first adopted SB-FRSs in 2005, with a date of transition to SB-FRSs of 1 January 2004. Its last financial statements under previous GAAP were for the year ended 31 December 2004.

APPLICATION OF REQUIREMENTS

The entity's first SB-FRS financial statements include the reconciliations and related notes shown below.

Among other things, this example includes a reconciliation of equity at the date of transition to SB-FRSs (1 January 2004). The SB-FRS also requires a reconciliation at the end of the last period presented under previous GAAP (not included in this example).

In practice, it may be helpful to include cross-references to accounting policies and supporting analyses that give further explanation of the adjustments shown in the reconciliations below.

If a first-time adopter becomes aware of errors made under previous GAAP, the reconciliations distinguish the correction of those errors from changes in accounting policies (paragraph 41 of the SB-FRS). This example does not illustrate disclosure of a correction of an error.

RECONCILIATION OF EQUITY AT 1 JANUARY 2004 (DATE OF TRANSITION TO SB-FRSs)

Note		*Previous GAAP*	*Effect of transition to SB-FRSs*	*SB-FRSs*
1	Property, plant and equipment	8,299	100	8,399
2	Goodwill	1,220	150	1,370
2	Intangible assets	208	(150)	58
3	Financial assets	3,471	420	3,891
	Total non-current assets	13,198	520	13,718
	Trade and other receivables	3,710	0	3,710
4	Inventories	2,962	400	3,362
5	Other receivables	333	431	764
	Cash and cash equivalents	748	0	748
	Total current assets	7,753	831	8,584
	Total assets	20,951	1,351	22,302
	Interest-bearing loans	9,396	0	9,396
	Trade and other payables	4,124	0	4,124
6	Employee benefits	0	66	66
7	Restructuring provision	250	(250)	0
	Current tax liability	42	0	42
8	Deferred tax liability	579	460	1,039
	Total liabilities	14,391	276	14,667
	Total assets less total liabilities	6,560	1,075	7,635
	Issued capital	1,500	0	1,500
3	Revaluation reserve	0	294	294
5	Hedging reserve	0	302	302
9	Retained earnings	5,060	479	5,539
	Total equity	6,560	1,075	7,635

NOTES TO THE RECONCILIATION OF EQUITY AT 1 JANUARY 2004:

1 Depreciation was influenced by tax requirements under previous GAAP, but under SB-FRSs reflects the useful life of the assets. The cumulative adjustment increased the carrying amount of property, plant and equipment by 100.

2 Intangible assets under previous GAAP included 150 for items that are transferred to goodwill because they do not qualify for recognition as intangible assets under SB-FRSs.

3 Financial assets are all classified as available-for-sale under SB-FRSs and are carried at their fair value of 3,891. They were carried at cost of 3,471 under previous GAAP. The resulting gains of 294 (420, less related deferred tax of 126) are included in the revaluation reserve.

4 Inventories include fixed and variable production overhead of 400 under SB-FRSs, but this overhead was excluded under previous GAAP.

continued...

5 Unrealised gains of 431 on unmatured forward foreign exchange contracts are recognised under SB-FRSs, but were not recognised under previous GAAP. The resulting gains of 302 (431, less related deferred tax of 129) are included in the hedging reserve because the contracts hedge forecast sales.

6 A pension liability of 66 is recognised under SB-FRSs, but was not recognised under previous GAAP, which used a cash basis.

7 A restructuring provision of 250 relating to head office activities was recognised under previous GAAP, but does not qualify for recognition as a liability under SB-FRSs.

8 The above changes increased the deferred tax liability as follows:

Revaluation reserve (note 3)	126
Hedging reserve (note 5)	129
Retained earnings	205
Increase in deferred tax liability	460

Because the tax base at 1 January 2004 of the items reclassified from intangible assets to goodwill (note 2) equalled their carrying amount at that date, the reclassification did not affect deferred tax liabilities.

9 The adjustments to retained earnings are as follows:

Depreciation (note 1)	100
Production overhead (note 4)	400
Pension liability (note 6)	(66)
Restructuring provision (note 7)	250
Tax effect of the above	(205)
Total adjustment to retained earnings	479

RECONCILIATION OF PROFIT OR LOSS FOR 2004

Note		*Previous GAAP*	*Effect of transition to SB-FRSs*	*SB-FRSs*
	Revenue	20,910	0	20,910
1,2,3	Cost of sales	(15,283)	(97)	(15,380)
	Gross profit	5,627	(97)	5,530
1	Distribution costs	(1,907)	(30)	(1,937)
1,4	Administrative expenses	(2,842)	(300)	(3,142)
	Finance income	1,446	0	1,446
	Finance costs	(1,902)	0	(1,902)
	Profit before tax	422	(427)	(5)
5	Tax expense	(158)	128	(30)
	Net profit (loss)	264	(299)	(35)

continued…

NOTES TO THE RECONCILIATION OF PROFIT OR LOSS FOR 2004:

1 A pension liability is recognised under SB-FRSs, but was not recognised under previous GAAP. The pension liability increased by 130 during 2004, which caused increases in cost of sales (50), distribution costs (30) and administrative expenses (50).

2 Cost of sales is higher by 47 under SB-FRSs because inventories include fixed and variable production overhead under SB-FRSs but not under previous GAAP.

3 Depreciation was influenced by tax requirements under previous GAAP, but reflects the useful life of the assets under SB-FRSs. The effect on the profit for 2004 was not material.

4 A restructuring provision of 250 was recognised under previous GAAP at 1 January 2004, but did not qualify for recognition under SB-FRS until the year ended 31 December 2004. This increases administrative expenses for 2004 under SB-FRSs.

5 Adjustments 1-4 above lead to a reduction of 128 in deferred tax expense.

EXPLANATION OF MATERIAL ADJUSTMENTS TO THE CASH FLOW STATEMENT FOR 2004:

Income taxes of 133 paid during 2004 are classified as operating cash flows under SB-FRSs, but were included in a separate category of tax cash flows under previous GAAP. There are no other material differences between the cash flow statement presented under SB-FRSs and the cash flow statement presented under previous GAAP.

IG64 A first-time adopter is encouraged, but not required, to apply SB-FRS 102 *Share-based Payment* to equity instruments that were granted after 22 November 2002 that vested before the later of (a) the date of transition to SB-FRSs and (b) 1 January 2005.

IG65 For example, if an entity's date of transition to SB-FRSs is 1 January 2004, the entity applies SB-FRS 102 to shares, share options or other equity instruments that were granted after 22 November 2002 and had not yet vested at 1 January 2005. Conversely, if an entity's date of transition to SB-FRSs is 1 January 2010, the entity applies SB-FRS 102 to shares, share options or other equity instruments that were granted after 22 November 2002 and had not yet vested at 1 January 2010.

SB-FRS Interpretations

INT SB-FRS 101 Changes in Existing Decommissioning, Restoration and Similar Liabilities

IG201 SB-FRS 16 requires the cost of an item of property, plant and equipment to include the initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located. SB-FRS 37 requires the liability, both initially and subsequently, to be measured at the amount required to settle the present obligation at the balance sheet date, reflecting a current market-based discount rate.

IG202 INT SB-FRS 101 requires that, subject to specified conditions, changes in an existing decommissioning, restoration and similar liability are added to or deducted from the cost of the related asset. The resulting depreciable amount of the asset is depreciated over its useful life, and the periodic unwinding of the discount on the liability is recognised in profit and loss as it occurs.

IG203 Paragraph 25E of INT SB-FRS 101 provides a transitional exemption. Instead of retrospectively accounting for changes in this way, entities can include in the depreciated cost of the asset an amount calculated by discounting the liability at the date of transition to SB-

FRSs back to, and depreciating it from, when the liability was first incurred. IG Example 201 illustrates the effect of applying this exemption, assuming that the entity accounts for its property, plant and equipment using the cost model.

INT SB-FRS 104 *Determining whether an Arrangement contains a Lease*

IG204 INT SB-FRS 104 specifies criteria for determining, at the inception of an arrangement, whether the arrangement contains a lease. It also specifies when an arrangement should be reassessed subsequently.

IG205 Paragraphs 25F of SB-FRS 101 provides a transitional exemption. Instead of determining retrospectively whether an arrangement contains a lease at the inception of the arrangement and subsequently reassessing that arrangement as required in the periods before transition to SB-FRSs, entities may determine whether arrangements in existence on the date of transition to SB-FRSs contain leases by applying paragraphs 6-9 of INT SB-FRS 104 to those arrangements on the basis of facts and circumstances existing on that date.

IG Example 202: Determining whether an Arrangement contains a Lease

BACKGROUND

An entity's first SB-FRS financial statements have a reporting date of 31 December 2007 and include comparative information for 2006 only. Its date of transition to SB-FRSs is therefore 1 January 2006.

On 1 January 1995, the entity entered into a take-or-pay arrangement to supply gas. On 1 January 2000, there was a change in the contractual terms of the arrangement.

APPLICATION OF REQUIREMENTS

On 1 January 2006, the entity may determine whether the arrangement contains a lease by applying the criteria in paragraphs 6-9 of INT SB-FRS 104 on the basis of facts and circumstances existing on that date. Alternatively, the entity applies those criteria on the basis of facts and circumstances existing on 1 January 1995 and reassesses the arrangement on 1 January 2000. If the arrangement is determined to contain a lease, the entity follows the guidance in paragraphs IG14-IG16.