



International Financial Reporting Bulletin

Additional Exemptions for First-time Adopters (Amendments to IFRS 1)

20 August 2009

Status: Final

Effective date:

1 January 2010

Accounting impact:

First time adopters only

Summary

This Amendment was issued in July and introduces two further transitional reliefs into IFRS 1 which:

- exempt first-time adopters using the full cost method under previous GAAP from retrospective application of IFRSs for the measurement of oil and gas assets in certain instances.
- exempt first-time adopters with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4 *Determining whether an Arrangement contains a Lease* when the application of their previous GAAP produced the same result.

Use of deemed cost for oil and gas assets

Some national accounting requirements allow exploration and development costs for oil and gas properties in the development or production phases to be accounted for in cost centres that include all properties in a large geographical area. This will almost always be at a larger unit of account than the unit of account that is acceptable under IFRSs.

A first-time adopter that adopted such treatments under its previous GAAP may elect to measure oil and gas assets at the date of transition to IFRSs on the following basis:

- (a) exploration and evaluation assets at the amount determined under the entity's previous GAAP; and
- (b) assets in the development or production phases at the amount determined for the cost centre under the entity's previous GAAP. An entity taking this exemption should allocate this amount to the cost centre's underlying assets pro rata using reserve volumes or reserve values as of that date.

For the purposes of this exemption, 'oil and gas assets' are restricted only to those assets used in the exploration, evaluation, development or production of oil and gas.

Once the allocation has been completed, the entity should test the exploration and evaluation assets and assets in the development and production phases for impairment at the date of transition to IFRSs in accordance with IFRS 6 or IAS 36 respectively.

If an entity uses the exemption in respect of assets in the development or production phases (i.e. bullet (b) above), it should disclose that fact and the basis on which carrying amounts determined under previous GAAP were allocated.

In addition, an entity that uses the exemption in respect of assets in the development or production phases (i.e. bullet (b) above) shall, instead of applying IFRS 1 (Revised 2008), paragraph D21 'Decommissioning liabilities included in the cost of property, plant and equipment' or IFRIC 1 'Changes in existing decommissioning, restoration and similar liabilities':

- (a) measure decommissioning, restoration and similar liabilities as at the date of transition to IFRSs in accordance with IAS 37; and
- (b) recognise directly in retained earnings any difference between that amount and the carrying amount of those liabilities at the date of transition to IFRSs determined under the entity's previous GAAP.

Leases Some national GAAPs have similar requirements to those included in IFRIC 4 '*Determining whether an arrangement contains a lease*'. If a first-time adopter made the same determination of whether an arrangement contained a lease in accordance with previous GAAP as that required by IFRIC 4 but at a date other than that required by IFRIC 4, the first-time adopter need not reassess that determination when it adopts IFRSs.

For an entity to have made the same determination of whether the arrangement contained a lease in accordance with previous GAAP, that determination would have to have given the same outcome as that resulting from applying IAS 17 *Leases* and IFRIC 4.

Effective date Both amendments are applicable for annual periods beginning on or after 1 January 2010, although earlier application is permitted.

An entity applying these amendments for an earlier period it should disclose that fact.



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