You may be able to put off your New Year’s celebration plans until the last minute, but you cannot delay planning for your transition to International Financial Reporting Standards (IFRSs). You may think 2011 still leaves you some time, but there are a number of things you should have in place by January 1, 2010, if your organization’s fiscal year is a calendar year.

**Accept the 2010 Invitation, not 2011**

Why is the beginning of 2010, instead of 2011, the party you do not want to miss? IFRSs include a standard IFRS 1, *First-time Adoption of International Financial Reporting Standards*, to help you transition from existing Canadian GAAP to IFRSs. IFRS 1 requires you to apply the IFRSs that are in effect at your year-end reporting date retrospectively; in other words, as if you had always been applying them. Imagine if New Year’s resolutions were retrospective — how would you make yourself have washboard abs at January 1, 2010, when you started doing sit-ups on January 1, 2011?

Still not sure why 2010 is the party to be at? Comparatives are key to the IFRS New Year. IFRSs require you to provide one year of comparative financial information with the first annual financial statement you prepare in accordance with IFRSs. The first day of that first comparative period is known as your “transition date”. Generally your company’s transition date is 24 months before your fiscal year-end reporting date. A December 31, 2011 fiscal year end will have a January 1, 2010 transition date.

To have washboard abs by January 1, 2010, you would have to do some training before the party. For your transition to IFRSs, you have to do some planning before your transition date.

First, your company will have to select the accounting policies it is going to follow under IFRSs. This will enable you to start collecting the appropriate data in 2010 to be included in the comparatives in the 2011 financial statements. Not sure how to start that process? Then go back to the “IFRSs: Guide for Procrastinators.” The Procrastinator’s Guide will remind you that, once the policies are selected, you must assess the systems changes needed to ensure you are ready to gather the appropriate data starting on your transition date.

Next stop: IFRS 1. When IFRS 1 was developed, the cost of retrospective treatment was considered. As a result, there are a number of optional exemptions in IFRS 1 to make your journey to IFRSs a little more manageable. If you don’t plan for those exemptions, you may find you don’t have the information available to take advantage of them and you will miss the party.

**Fashionably Late Could Be Costly**

What kinds of things does IFRS 1 offer that you would not want to miss by being fashionably late? One of the options that IFRS 1 allows is to measure some assets at their fair value at your transition date in lieu of historical cost. This fair value can be used as your “deemed cost” for future accounting. Do not be fooled by thinking you have the historical cost information and therefore, you do not need to worry about anything. What if you realized after the transition date that the depreciation methods and rates being used previously were not acceptable under IFRSs? To restate, retrospectively, using the acceptable methods and rates, could be time consuming and costly, but a valuation at your transition date would alleviate the need to go back into historical records.

What if, after your transition date, you determined that the company was required to use a different functional currency than it was using under Canadian GAAP? If so, this may require retrospective restatement of non-monetary assets at historical exchange rates. It could be easier to determine
the fair values of your non-monetary assets at the transition date and apply the exchange rate at the transition date, rather than determining historical exchange rates and historical costs of the non-monetary assets.

At transition, assets may need to be tested for impairment if there are indications that the asset might be impaired. Therefore, by your transition date you should know what the indicators under IFRSs are and be ready to assess the circumstances for your company's assets. On a happier note, in some circumstances, IFRSs require an entity to reverse a previously recorded impairment, and you would not want to miss out on collecting the appropriate information to support that decision in your opening statement of financial position.

IFRS 1 does require you to test any goodwill for impairment at the transition date, whether or not there are indications. Again, you may be fooled into thinking that you know what your goodwill is and therefore will be able to collect the information needed after the date has passed. What if you realize after the transition date that your goodwill should be tested at a lower level because IFRSs require you to allocate goodwill to a cash-generating unit or group of cash-generating units? A cash-generating unit is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash flows from other assets. Are you sure you will be able to go back in time to collect the information needed and appropriately apply the transition rules?

A couple of actions you must do before, or on, your transition date, or miss out altogether, are the designation of any hedged items and classification of any financial instruments. This must be done and documented no later than your transition date.

Another reason being fashionably late for this party is not a good idea is that IFRS 1 prohibits the use of hindsight and the farther past the transition date you get, the more influenced by hindsight you will be. You may not see this as a problem, but your auditor might. Speaking of auditors...

**The Guest List**

If you want to be sure of the guest list at a New Year's party, you invite people early. A guest to consider inviting before the IFRS party starts is your auditor. It is always a good idea to discuss your decisions affecting your financial reporting with your auditor before the audit is started. Hopefully, some of the people you will include in the planning for your IFRS party are the information technology people, because if you do not your systems may not be able to track the information you need beginning in 2010. If you decided it would be better for your organization to use an independent valuator to determine fair values at transition, making the call before 2010 would be a good idea. You might find that valuators are very popular in 2010, so an early invitation would determine their availability and what information they might need as of your transition date. Another very important guest will be anyone that your company receives financing from, because they usually expect debt covenants to be met and changes in your financial reporting may change the application of those debt covenants.

**More Reasons**

You shouldn't delay your planning for transition only because you may miss out on an option in IFRS 1. There are many other good reasons for early planning, like leaving time to test new systems, and having time to deal with unexpected issues that arise during the months before you need to collect data beginning in 2010. What if you discovered after your transition date that IFRSs do not allow the use of the completed contract method and that is the way your company currently tracks revenue? It would be a lot of work to go back and recreate the data if the necessary systems were not in place before transition.

Remember, this is not an exhaustive list of the reasons to act before your transition date, so get moving!!

**New Years — Be Ready and Be the Life and Soul of the Party**

We all hate doing sit-ups, but wouldn't it be fun to arrive at the party with those new improved abs? Like physical fitness, if you do the proper planning for your transition to your IFRSs, there will be many benefits.

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**For more information on IFRSs:**

On the web: [www.cica.ca/transition](http://www.cica.ca/transition)
[www.acsbcanada.org](http://www.acsbcanada.org) [www.iasb.org](http://www.iasb.org)

Or email: Peter.Martin@cica.ca

Further *Bulletins* in this series will present more information on aspects of change involved in the transition to international financial reporting standards for publicly accountable enterprises and changes in the accounting standards for private companies and not-for-profit organizations. The series is available at [www.acsbcanada.org/strategic-planning/publicly-accountable/index.aspx](http://www.acsbcanada.org/strategic-planning/publicly-accountable/index.aspx).