GENERAL ACCOUNTING
SECTION 1500
first-time adoption

TABLE OF CONTENTS

PURPOSE AND SCOPE

.01 The purpose of this Section is to ensure that an entity's first financial statements prepared using standards in Part II of the Handbook, contain high-quality information that:

(a) is transparent for users and comparable over all periods presented;

(b) provides a suitable starting point for accounting under accounting standards for private enterprises; and

(c) can be generated at a cost that does not exceed the benefits to users.

.02 An entity applies this Section to its first financial statements prepared in accordance with accounting standards for private enterprises.

.02A *An enterprise that applied accounting standards for private enterprises in a previous reporting period, but whose most recent annual financial statements were not prepared in accordance with accounting standards for private enterprises, shall apply either:*

(a) this Section; or

(b) accounting standards for private enterprises retrospectively, in accordance with ACCOUNTING CHANGES, Section 1506*, as if the enterprise had never stopped applying accounting standards for private enterprises.*

.02B *When an enterprise chooses to apply paragraph* 1500.02A*(b), the enterprise shall nevertheless apply the disclosure requirements in paragraphs* 1500.37A-.37B*, in addition to the disclosure requirements in ACCOUNTING CHANGES, Section* 1506*.*

DEFINITIONS

.03 The following terms are used in this Section with the meanings specified:

(a) The **date of transition to accounting standards for private enterprises** is the beginning of the earliest period for which an entity presents full comparative information under accounting standards for private enterprises.

(b) **Deemed cost** is an amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortization assumes that the entity had initially recognized the asset or liability at the given date and that its cost was equal to the deemed cost.

(c) **Fair value** is the amount of the consideration that would be agreed upon in an arm's length transaction, between knowledgeable, willing parties who are under no compulsion to act.

(d) A **first-time adopter** is an entity that presents its financial statements in accordance with accounting standards for private enterprises for the first time.

(e) An **opening balance sheet** is an entity's balance sheet at the date of transition to accounting standards for private enterprises.

RECOGNITION, MEASUREMENT AND PRESENTATION

Opening balance sheet

.04 An entity prepares and presents an opening balance sheet at the date of transition to accounting standards for private enterprises. This opening balance sheet is the starting point for the entity's accounting under accounting standards for private enterprises.

Accounting policies

.05 *An entity shall use the same accounting policies in its opening balance sheet and throughout all periods presented in its first financial statements prepared using accounting standards for private enterprises. Those accounting policies shall comply with the accounting policies effective at the end of the year the entity adopts accounting standards for private enterprises, except as otherwise specified in this Section.*

.06 Except as noted in paragraphs 1500.09 and 1500.26 an entity, in its opening balance sheet prepared using accounting standards for private enterprises:

(a) recognizes all assets and liabilities whose recognition is required by the standards;

(b) does not recognize items as assets or liabilities if the standards do not permit such recognition;

(c) reclassifies items that it recognized previously as one type of asset, liability or component of equity, but are recognized as a different type of asset, liability or component of equity under the standards; and

(d) applies the standards in measuring all recognized assets and liabilities.

.07 *The accounting policies that an entity uses in its opening balance sheet prepared in accordance with accounting standards for private enterprises may differ from those that it used for the same date under its previous accounting policies. For example, an entity may have previously reported other comprehensive income, whereas there is no such concept in accounting standards for private enterprises. Any resulting adjustments arise from events and transactions before the date of transition to accounting standards for private enterprises. An entity shall recognize such adjustments directly in retained earnings at the date of transition to accounting standards for private enterprises.*

.08 *This Section establishes two categories of exceptions to the principle that an entity's opening balance sheet shall comply with accounting standards for private enterprises:*

(a) exemptions from some requirements of other standards (see paragraph 1500.09)*;*

(b) prohibited retrospective application of some aspects of other standards (see paragraph 1500.26).

Exemptions from other standards

.09 An entity may elect to use exemptions related to one or more of the following:

(a) business combinations (see paragraphs 1500.10-.11);
(b) subsidiaries (see paragraph 1500.11A);
(c) assets and liabilities of subsidiaries, and joint arrangements (see paragraphs 1500.11B-.11E);
(d) joint arrangements (see paragraph 1500.11F);
(e) investments (see paragraph 1500.11G);
(f) fair value (see paragraphs 1500.12-.13);
(ff) agricultural inventories or productive biological assets (see paragraph 1500.13A);
(g) employee future benefits (see paragraphs 1500.16-.16A);
(h) cumulative translation differences (see paragraphs 1500.17-.18);
(i) financial instruments (see paragraphs 1500.19-.21);
(j) share-based payment transactions (see paragraphs 1500.22-.23);
(k) asset retirement obligations (see paragraph 1500.24);
(l) related party transactions (see paragraph 1500.25);
(m) revenue (see paragraph 1500.25A);
(n) customer's accounting for cloud computing arrangements (see paragraph 1500.25B); and
(o) accounting for life insurance contracts with cash surrender value (see paragraph 1500.25C).

An entity shall not apply these exemptions by analogy to other items. [Former paragraph 1500.09 retained in Archived Pronouncements.] [Former paragraph 1500.09, amended by ACCOUNTING GUIDELINE AcG-21, Accounting for Life Insurance Contracts with Cash Surrender Value, retained in Archived Pronouncements.]

Business combinations

.10 A first-time adopter may elect not to apply BUSINESS COMBINATIONS, Section 1582, retrospectively to past business combinations (business combinations that occurred before the date of transition to accounting standards for private enterprises). However, if a first-time adopter restates any business combination to comply with Section 1582, it restates all subsequent business combinations and also applies CONSOLIDATIONS, Section 1601, and NON-CONTROLLING INTERESTS, Section 1602, from that same date.

.11 If a first-time adopter does not apply BUSINESS COMBINATIONS, Section 1582, retrospectively to a past business combination, this has the following consequences for that business combination:

(a) The first-time adopter retains the same classification (for example, as an acquisition, a reverse acquisition or as a pooling of interests) as in its previous financial statements.
(b) At the date of transition to accounting standards for private enterprises, a first-time adopter recognizes all its assets and liabilities that were acquired or assumed in a past business combination, except for financial assets and liabilities derecognized in prior periods (see paragraph 1500.27). Any resulting change is accounted for by adjusting retained earnings unless the change results from the recognition of an intangible asset that was previously subsumed within goodwill.
(c) The first-time adopter excludes from its opening balance sheet any item recognized under previous financial reporting standards that does not qualify for recognition as an asset or liability under accounting standards for private enterprises. Any resulting change is accounted for by adjusting retained earnings, unless the change results from an intangible asset that is reclassified as part of goodwill.
(d) If an asset acquired, or liability assumed, in a past business combination was not recognized previously, it does not have a deemed cost of zero in the opening balance sheet. Instead, the acquirer recognizes and measures the item in its consolidated balance sheet on the basis that the standards would require in the balance sheet of the acquiree.
(e) The carrying amount of goodwill in the opening balance sheet is recognized at its carrying amount in accordance with previous financial reporting standards at the date of transition to accounting standards for private enterprises, after the following adjustments:
    (i) Goodwill is increased by the amount of any item recognized as an intangible asset under previous financial reporting standards that does not qualify for recognition as an intangible asset under accounting standards for private enterprises. Similarly, goodwill is decreased by the amount of any item recognized as an intangible asset under accounting standards for private enterprises that was not recognized as an intangible asset under previous financial reporting standards but was included in goodwill.
    (ii) Goodwill is tested for impairment at the date of transition to accounting standards for private enterprises in accordance with GOODWILL AND INTANGIBLE ASSETS, Section 3064, if circumstances indicate that the carrying amount of the reporting unit to which the goodwill is assigned may exceed the fair value of the reporting unit.

Subsidiaries

.11A When a first-time adopter chooses to apply an accounting policy to:

(a) consolidate its subsidiaries for the first time when preparing its first financial statements using the standards in Part II of the Handbook, the enterprise may apply the transitional provisions in SUBSIDIARIES, paragraphs 1591.42-.45; or

(b) account for its subsidiaries using the cost method, the enterprise may:

(i) refer to the effective date in paragraph 1591.39B as January 1, 2018 or the date of transition to accounting standards for private enterprises, whichever is later; and

(ii) apply the transitional provisions in SUBSIDIARIES, paragraphs 1591.39B-.39C.

Assets and liabilities of subsidiaries, and joint arrangements

.11B If a subsidiary becomes a first-time adopter later than its parent, when preparing its financial statements, the subsidiary measures its assets and liabilities at either:

(a) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to accounting standards for private enterprises, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary; or

(b) the carrying amounts required by this Section, based on the subsidiary's date of transition to accounting standards for private enterprises.

.11C The carrying amounts in 1500.11B(b) could differ from those described in 1500.11B(a):

(a) when the exemptions in this Section result in measurements that depend on the date of transition to accounting standards for private enterprises; and

(b) when the accounting policies used in the subsidiary's financial statements differ from those in the consolidated financial statements.

.11D A similar election is available to a joint arrangement that becomes a first-time adopter later than an entity that has significant influence or joint control over it.

.11E However, if an entity becomes a first-time adopter later than its subsidiary (or joint arrangement), in its consolidated financial statements, the entity measures the assets and liabilities of the subsidiary (or joint arrangement) at the same carrying amounts as in the financial statements of the subsidiary (or joint arrangement), after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary.

Joint arrangements

.11F A first-time adopter may apply the transitional provisions in INTERESTS IN JOINT ARRANGEMENTS, Section 3056.

Investments

.11G A first-time adopter may apply the transitional provision in INVESTMENTS, paragraph 3051.41.

.11H A first-time adopter may apply the transitional provision in INVESTMENTS, paragraph 3051.43, and refer to the effective date as January 1, 2018 or the date of transition to accounting standards for private enterprises, whichever is later.

.11I A first-time adopter may apply the transitional provision in INVESTMENTS, paragraph 3051.44, and refer to the effective date as January 1, 2021 or the date of transition to accounting standards for private enterprises, whichever is later.

Fair value

.12 An entity may elect to measure an item of property, plant and equipment at the date of transition to accounting standards for private enterprises at its fair value and use that fair value as its deemed cost at that date.

.13 A first-time adopter may have established a deemed cost previously for some or all of its assets and liabilities by measuring them at their fair value at a particular date (for example, a comprehensive revaluation in accordance with COMPREHENSIVE REVALUATION OF ASSETS AND LIABILITIES, Section 1625). It may use such fair value measurements as deemed cost for accounting standards for private enterprises at the date of that measurement.

Agricultural inventories or productive biological assets

.13A A first-time adopter may apply the transitional provisions in AGRICULTURE, Section 3041.

Employee future benefits

(paragraphs 1500.14-.15 deleted)

.16 A first-time adopter may have had an unamortized transitional asset or an unamortized transitional obligation in preparing financial statements using its previous accounting policies. Any such transitional amount is recognized in opening retained earnings at the date of transition to accounting standards for private enterprises.

.16A A first-time adopter may apply the transitional provisions in EMPLOYEE FUTURE BENEFITS, Section 3462.

Cumulative translation differences

.17 FOREIGN CURRENCY TRANSLATION, Section 1651, requires an entity:

(a) to classify some translation differences as a separate component of equity; and

(b) on disposal of a foreign operation, to transfer the cumulative translation difference for that foreign operation (including, if applicable, gains and losses on related hedges) to the income statement as part of the gain or loss on disposal.

.18 However, a first-time adopter need not comply with those requirements for cumulative translation differences that existed at the date of transition to accounting standards for private enterprises. If a first-time adopter uses this exemption:

(a) the cumulative translation differences for all operations are deemed to be zero at the date of transition to accounting standards for private enterprises; and

(b) the gain or loss on a subsequent disposal of any operation excludes translation differences that arose before the date of transition to accounting standards for private enterprises and includes subsequent translation differences.

Financial instruments

.19 An entity applies FINANCIAL INSTRUMENTS, Section 3856, to its opening balance sheet for the first year presented in the financial statements for the year of adoption of accounting standards for private enterprises. Any difference between the recognition and measurement of financial instruments at that date, in accordance with Section 3856, and the prior year's closing balance sheet is recorded as an adjustment to opening retained earnings at the date of transition to accounting standards for private enterprises.

.20 FINANCIAL INSTRUMENTS, Section 3856, requires an entity to classify separately the component parts of a financial instrument that contains both a liability and an equity component. However, under this Section, a first-time adopter need not separate the components if the liability component is no longer outstanding at the date of transition to accounting standards for private enterprises.

.21 At the date of transition to accounting standards for private enterprises, an enterprise is permitted to designate:

(a) any financial asset or financial liability, issued in an arm's length transaction, to be measured at fair value in accordance with FINANCIAL INSTRUMENTS, paragraph 3856.13(a); and

(b) debt instruments originated or acquired or issued or assumed in a related party transaction to be measured at fair value, in accordance with FINANCIAL INSTRUMENTS, paragraph 3856.13A, when:

(i) the instrument is quoted in an active market; or

(ii) inputs significant to the determination of the fair value of the instrument are observable, either directly or indirectly.

.21A A first-time adopter may apply the transitional provisions in FINANCIAL INSTRUMENTS, paragraphs 3856.63-.64, for classification of retractable or mandatorily redeemable shares issued in a tax planning arrangement.

.21B A first-time adopter may apply the transitional provisions in FINANCIAL INSTRUMENTS, paragraphs 3856.67-.68, to financial instruments originated or acquired or issued or assumed in a related party transaction.

Stock-based compensation and other stock-based payments

.22 A first-time adopter may elect to not apply the recognition and measurement aspects of STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS, Section 3870, to stock-based compensation granted or issued prior to the date of transition to accounting standards for private enterprises. Entities applying this election are required to comply with the relevant disclosure requirements in Section 3870.

.23 An entity that previously accounted for stock-based compensation and other stock-based payments on a basis consistent with STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS, Section 3870, except that it used the minimum value method, is not required to apply the calculated value method to awards issued prior to the date of transition to accounting standards for private enterprises.

Asset retirement obligations

.24 An entity that has not previously recognized asset retirement obligations on a basis consistent with ASSET RETIREMENT OBLIGATIONS, Section 3110, may measure the obligation at the date of transition to accounting standards for private enterprises and estimate the amount that shall be included in the carrying amount of the related asset based on the original and remaining life of the asset. The difference between the change in the obligation and the change to the carrying amount of the asset is charged to opening retained earnings at the date of transition to accounting standards for private enterprises.

Related party transactions

.25 RELATED PARTY TRANSACTIONS, Section 3840, specifies that non-financial assets and non-financial liabilities (i.e., assets and liabilities that are excluded from the scope of FINANCIAL INSTRUMENTS, Section 3856) in related party transactions shall be measured at the carrying amount and some at the exchange amount. An enterprise is not required to restate non-financial assets or non-financial liabilities related to transactions with related parties when the related party transaction occurred prior to the date of transition to accounting standards for private enterprises.

Revenue

.25A A first-time adopter may apply the transitional provisions in REVENUE, paragraphs 3400.38-.40.

Customer's accounting for cloud computing arrangements

.25B A first-time adopter may apply the transition provisions in ACCOUNTING GUIDELINE AcG-20, Customer's Accounting for Cloud Computing Arrangements.

Accounting for life insurance contracts with cash surrender value

.25C A first-time adopter may apply the transition provisions in ACCOUNTING GUIDELINE AcG-21, Accounting for Life Insurance Contracts with Cash Surrender Value.

Exceptions to retrospective application of other standards

.26 This Section prohibits retrospective application of some aspects of other standards relating to:

(a) derecognition of financial assets and financial liabilities (see paragraphs 1500.27-.28);

(b) hedge accounting (see paragraphs 1500.29-.30);

(c) estimates (see paragraphs 1500.31-.33); and

(d) non-controlling interests (see paragraph 1500.34).

Derecognition of financial assets and financial liabilities

.27 Except as permitted by paragraph 1500.28, a first-time adopter applies the derecognition requirements in FINANCIAL INSTRUMENTS, Section 3856, prospectively for transactions occurring on or after the date of transition to accounting standards for private enterprises. In other words, if a first-time adopter derecognized non-derivative financial assets or non-derivative financial liabilities under its previous reporting, it does not recognize those assets and liabilities under accounting standards for private enterprises (unless they qualify for recognition as a result of a later transaction or event).

.28 An entity may apply the derecognition requirements in FINANCIAL INSTRUMENTS, Section 3856, retrospectively from a date of the entity's choosing, provided that the information needed to apply Section 3856 to financial assets and financial liabilities derecognized as a result of past transactions was obtained at the time of initially accounting for those transactions.

Hedge accounting

.29 As required by FINANCIAL INSTRUMENTS, Section 3856, in its opening balance sheet, an entity:

(a) measures certain derivatives at fair value (see paragraph 3856.12(b)); and

(b) eliminates all deferred losses and gains arising on derivatives that were reported previously as if they were assets or liabilities.

.30 An entity does not reflect in its opening balance sheet a hedging relationship of a type that does not qualify for hedge accounting under Section 3856. If, before the date of transition to accounting standards for private enterprises, an entity had designated a hedging relationship using criteria that are the same as that in FINANCIAL INSTRUMENTS, paragraph 3856.31, the entity adjusts the carrying amounts of the hedged and hedging items to the amount that would have been recognized had Section 3856 always applied. Transactions entered into before the date of transition to accounting standards for private enterprises are not retrospectively designated as hedges.

Estimates

.31 *An entity's estimates in its opening balance sheet prepared using accounting standards for private enterprises shall be consistent with estimates in its balance sheet for the same date prepared using its previous accounting policies (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.*

.32 *An entity may receive information after the date of transition to accounting standards for private enterprises about estimates that it had made previously. An entity shall treat the receipt of that information in the same way as non-adjusting events after the balance sheet date under SUBSEQUENT EVENTS, Section* 3820.

.33 *An entity may need to make estimates for purposes of its opening balance sheet prepared using accounting standards for private enterprises that were not required for the balance sheet for that date using its previous accounting policies. Those estimates shall reflect conditions that existed at the date of the opening balance sheet prepared using accounting standards for private enterprises.*

Non-controlling interests

.34 A first-time adopter applies the following requirements of NON-CONTROLLING INTERESTS, Section 1602, prospectively from the date of transition to accounting standards for private enterprises:

(a) the requirements in paragraphs 1602.05-.06 for accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control;

(b) the requirements in paragraphs 1602.09-.12 for accounting for a loss of control over a subsidiary; and

(c) the requirement in paragraph 1602.14 that income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

However, if a first-time adopter elects to apply BUSINESS COMBINATIONS, Section 1582, retrospectively to past business combinations, it also applies Section 1602, in accordance with paragraphs 1500.10-.11.

DISCLOSURE

.35 *In the year of adoption of accounting standards for private enterprises, an entity shall disclose:*

(a) the amount of each charge to retained earnings at the date of transition to accounting standards for private enterprises resulting from the adoption of these standards and the reason therefor; and

(b) a reconciliation of the net income reported in the entity's most recent previously issued financial statements to its net income under accounting standards for private enterprises for the same period.

.36 *The disclosures required by paragraph* 1500.35 *shall give sufficient detail to enable users to understand the material adjustments to the balance sheet and income statement. If an entity presented a cash flow statement under its previous accounting policies, it shall explain the material adjustments to the cash flow statement.*

.37 *When an enterprise elects to use one or more of the exemptions in paragraphs* 1500.10-*.25, it shall disclose the exemptions used.*

.37A *An enterprise that has applied accounting standards for private enterprises in a previous period, as described in paragraph* 1500.02A*, shall disclose:*

(a) the reason it stopped applying accounting standards for private enterprises; and

(b) the reason it is resuming the application of accounting standards for private enterprises.

.37B *An enterprise shall disclose whether it has chosen to apply this Section or ACCOUNTING CHANGES, Section 1506, as specified in paragraph* 1500.02A.

EFFECTIVE DATE AND TRANSITION

.38 Except as specified in paragraphs 1500.39-.46, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

.39 New paragraph 1500.16A, issued in May 2013, applies to annual financial statements relating to fiscal years beginning on or after January 1, 2014. Earlier application is permitted.

.40 Amended paragraph 1500.09 and new paragraphs 1500.11A-.11G, issued in September 2014, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2016. Earlier application is permitted.

.41 Amendments to paragraph 1500.11A and new paragraph 1500.11H, issued in December 2016, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2018. Earlier application is permitted.

.42 Amendments to paragraphs 1500.21 and 1500.25 and new paragraphs 1500.21A-.21B, issued in December 2018, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2021. Earlier application is permitted.

.43 New paragraphs 1500.09(ff) and 1500.13A, issued in November 2019, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2022. Earlier application is permitted.

.44 Amendments to paragraph 1500.09 and new paragraph 1500.25A apply to annual financial statements relating to fiscal years beginning on or after January 1, 2022. Earlier application is permitted.

.45 New paragraphs 1500.02A-.02B and 1500.37A-.37B, issued in April 2021, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2022. Earlier application is permitted.

.46 New paragraphs 1500.09(n) and 1500.25B, issued in November 2022, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2024. Earlier application is permitted.

.47 New paragraphs 1500.09(o) and 1500.25C, issued in September 2024, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2026. Earlier application is permitted.

ILLUSTRATIVE EXAMPLE

INITIAL APPLICATION OF ACCOUNTING STANDARDS FOR PRIVATE ENTERPRISES

This material is illustrative only.

This example illustrates how the accounting treatment specified in this Section might be applied in particular situations. Matters of principle relating to particular situations should be decided in the context of the Section.

Background

Entity A has a calendar year end. Entity A's first reporting period using accounting standards for private enterprises is December 31, 2010. Therefore, its date of transition to accounting standards for private enterprises is the beginning of business on January 1, 2009 (or, equivalently, close of business on December 31, 2008). Entity A presented financial statements under its previous GAAP annually to December 31st each year up to, and including, December 31, 2009.

Application of requirements

Entity A is required to apply accounting standards for private enterprises effective for periods ending on December 31, 2010 in:

(a) preparing and presenting its opening balance sheet at January 1, 2009; and

(b) preparing and presenting its balance sheet for December 31, 2010 (including comparative amounts for 2009), income statement, statement of retained earnings, and cash flow statement for the year to December 31, 2010 (including comparative amounts for 2009) and disclosures (including comparative information for 2009).