**FIRST ADOPTION OF IFRS BY AN ENTITY IN THE UK- A CASE STUDY**

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# Case study 1: First IFRS adoption in the UK

## 1.0 UK GAAP and IFRS difference list

| GAAP of UK | IFRS |
| --- | --- |
| In the form of standards of accounting the UK GAAP is set and in Ireland and in the UK it is used. | IFRS is a global accounting standard set by 100 countries is used including the UK also. |
| For different types and different versions are present in the UK GAAP. of entities. An example of it is small and medium-sized entities and large companies. | To all entities, IFRS has one set of standards regardless of type or size. |
| The historical cost accounting method is used in the UK GAAP which values liabilities, and assets at their original cost. | Historical cost accounting is allowed to be used through the IFRS, But fair value accounting is also permitted through it, which values liabilities, and assets at their present market price. |
| The companies are required in the UK GAAP to provide a statement of cash flow. But the specific format used for the statement is not required in it. | IFRS required companies to provide a statement of cash flow using a specific format. |
| For recognizing revenue specific rules are present in the UK GAAP. An example regarding it is the point in time when the recognition of the revenue must be there. | The broader principle-based approach is present in the IFRS for the recognition of the revenue, which requires companies to use judgment to determine when the recognition of the revenue must be there. |
| The goodwill gets amortized with the help of UK GAAP over a period of 10 years. | The impairment test or amortized goodwill will be chosen by the companies through the help of IFRS to determine whether the value is lost of the goodwill. |
| Specific rules are present in the UK GAAP for the measurement and classification of instruments of finance. An example regarding it is equity securities and debt. | For the measurement and classification, the riles are also present in the IFRS of the financial instrument. But they require more judgment and complex judgment. |
| The statement of total losses and gains is provided with the help of UK GAAP which shows equity changes over a time period. | The STGRL is not required to be provided by the companies through the IFRS. But it requires companies to provide a comprehensive income statement that demonstrate all income and expenses of the company for a period. |
| The cost model is allowed through the UK GAAP for equipment, plant, and property which values these assets at the original cost that is subtracted by the depreciation that is accumulated. | The cost model is also allowed to be used through the IFRS, but it also allows the revaluation model use, which at their present market value values these assets. |
| The minimum requirement is present in the UK GAAP for the disclosure. | In the IFRS for disclosure detailed requirement and guidance is present, |

**Table 1: Difference between UK GAAP and IFRS**

(Source: In MS Word self created)

## 2.0 IFRS financial statement for 2022 in the UK

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Accounting entries 2021 (T accounts)** | | | | | | | |
| **Cash** | |  | **Share capital** | | **Prepaid expenses** | | |
| (OB)136639000 | £ 2,857,000 |  |  | (OB)136639000 |  | £ 2857000 | £ 147234000 |
| £ 157,739,000 | £ 12,373,000 |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Expenses- administration | |  | Intangible assets | | Provision for future loss | |
|  | £ 147234000 |  | £ 12,373,000 | £ 106,517,000 |  | £ 12000 |
|  | £ 106517000 |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Other operational expenses | |  | Revenue | | Current tax liabilities | |
| £ 12000 |  |  |  | £ 157739000 |  | £ 6740000 |
|  |  |  |  |  |  |  |
| Current tax expenses | |  |  |  |  |  |
| £ 6740000 |  |  |  |  |  |  |

**Alternative approach:**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | opening balance |  |  |  |  |  |  |  | closing balance |
| **Fixed assets** |  |  |  |  |  |  |  |  |  |
| Intangible assets |  |  |  | £ 12,373,000 | -£ 106,517,000 |  |  |  | -£ 94,144,000 |
| Prepaid expenses |  | £ 2,857,000 | -£ 147,234,000 |  |  |  |  |  | -£ 144,377,000 |
| Current asset |  |  |  |  |  |  |  |  |  |
| Cash | £ 136,639,000 | -£ 2,857,000 |  | -£ 12,373,000 |  |  | £ 157,739,000 |  | £ 279,148,000 |
| **Total assets** |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
| **Equity** |  |  |  |  |  |  |  |  |  |
| Share capital | £ 136,639,000 |  |  |  |  |  |  |  | £ 136,639,000 |
| Profit |  |  | -£ 147,234,000 |  | -£ 106,517,000 | -£ 12,000 | £ 157,739,000 | -£ 674,000 | -£ 96,698,000 |
| **Current liabilities** |  |  |  |  |  |  |  |  |  |
| Provision |  |  |  |  |  | £ 12,000 |  |  | £ 12,000 |
| Current tax liability |  |  |  |  |  |  |  | £ 674,000 | £ 674,000 |
| **Total equity and liabilities** |  |  |  |  |  |  |  |  | £ 81,254,000 |

**Income statement for 2021:**

|  |  |
| --- | --- |
| **Revenue** | £ 157,739,000 |
| Administration | £ 253,751,000 |
| Other operating expenses | £ 12,355,000 |
| Profit before tax | -£ 108,367,000 |
| Tax expense | £ 6,740,000 |
| Profit (Loss) | -£ 115,107,000 |
| **Revenue** | £ 157,739,000 |
| Administration | £ 253,751,000 |

**Table 2: IFRS financial statement in 2021**

(Source: In MS Excel self created)

**Accounting entries 2022 (T accounts):**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Accounting entries 2022 (T accounts** | | | | | | | |
| **Cash** | |  | **Share capital** | |  | **Prepaid expenses** | |
| (OB)114497000 | £ 2,857,000 |  |  | (OB)114497000 | £ 2,857,000 | £ 13,649,000 |
| £ 241,392,000 | £ 12,373,000 |  |  |  |  |  |
|  | | | | | | | |
| **Expenses- administration** | |  | **Intangiable assets** | |  | **Provision for future loss** | |
| £ 13,649,000 |  |  | £ 12,373,000 | £ 106,517,000 |  | £ 14,000 |
| £ 106,517,000 |  |  |  |  |  |  |
|  | |  |  | |  | |
| **Other operational expenses** | |  | **Revenue** | | **Current tax liabilitiees** | |
| £ 14000 |  |  |  | £ 241392000 |  | £ 16762000 |
|  |  |  |  |  |  |  |
| **Current tax expenses** | |  |  |  |  |  |
| £ 16762000 |  |  |  |  |  |  |

**Alternative approach:**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **opening balance** |  |  |  |  |  |  |  | **closing balance** |
| **Fixed assets** |  |  |  |  |  |  |  |  |  |
| Intangiable assets |  |  |  | £ 12,373,000 | -£ 12,373,000 |  |  |  | £ - |
| Prepaid expenses |  | £ 2,857,000 | -£ 13,649,000 |  |  |  |  |  | -£ 10,792,000 |
| Current asset |  |  |  |  |  |  |  |  |  |
| Cash | £ 114,497,000 | -£ 2,857,000 |  | -£ 12,373,000 |  |  | £ 241,392,000 |  | £ 340,659,000 |
| **Total assets** |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
| **Equity** |  |  |  |  |  |  |  |  |  |
| Share capital | £ 114,497,000 |  |  |  |  |  |  |  | £ 114,497,000 |
| Profit |  |  | -£ 13,649,000 |  | -£ 12,373,000 | -£ 14,000 | £ 241,392,000 | -£ 16,762,000 | £ 198,594,000 |
| **Current liabilities** |  |  |  |  |  |  |  |  |  |
| Provision |  |  |  |  |  | £ 14,000 |  |  | £ 14,000 |
| Current tax liability |  |  |  |  |  |  |  | £ 16,762,000 | £ 16,762,000 |
| **Total equity and liabilities** |  |  |  |  |  |  |  |  | £ 659,734,000 |

|  |  |
| --- | --- |
| **Income statement for 2021** | |
| **Revenue** | £ 241,392,000 |
| Administration | £ 120,166,000 |
| Other operating expenses | £ 13,449,000 |
| Profit before tax | £ 107,777,000 |
| Tax expense | £ 16,762,000 |
| Profit (Loss) | £ 91,015,000 |

**Table 3: IFRS financial statement in 2022**

(Source: In MS Excel self created)

## 3.0 Statement of financial position translation and the statement of income

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **IFRS translation of Opening Statement of position of finance at January 1st,2021** | | | | | | |  |
|  | **X GAAP** | **Leases** | **Training** | **Provision** | **Deferred tax** | **IFRS** |  |
| **Fixed assets** | | | | | | | |
| **Leased asset** |  | 12,10,00,459 |  |  |  | 12,10,00,459 |  |
| **Intangible assets** | 17,65,42,000 |  | -176542000 |  |  | 0 |  |
| **Prepaid expenses** | 15,42,00,030 | -15,42,00,030 |  |  |  | 17,39,67,829 |  |
| **Current assets** |  |  |  |  |  |  |  |
| **Cash** | 16,42,51,000 |  |  |  |  | 16,42,51,000 |  |
| **Total assets** | 33,07,42,030 |  |  |  |  | 45,92,19,288 |  |
|  |  |  |  |  |  |  |  |
| **Equity** |  |  |  |  |  |  |  |
| **Share capital** | 15,77,39,000 |  |  |  |  | 15,77,39,000 |  |
| **Retained earnings** | 5,18,15,000 | 17,69,54,000 | -17,65,42,000 | -67,40,000 | -1,473 | 4,54,85,527 |  |
| **Non-current liabilities** |  |  |  |  |  | 0 |  |
| **Lease liability** |  | 6,40,35,130 |  |  |  | 6,40,35,130 |  |
| **Deferred tax liability** |  |  |  |  | 1,473 | 1,473 |  |
| **Current liabilities** |  |  |  |  |  | 0 |  |
| **Provision** | 1,52,27,000 |  |  | 67,40,000 |  | 2,19,67,000 |  |
| **Current tax liability** | 10,59,61,030 |  |  |  |  | 10,59,61,030 |  |
| **Lease liability** |  | 64030128 |  |  |  | 6,40,30,128 |  |
| **Total equity and liabilities** | 33,07,42,030 |  |  |  |  | 45,92,19,288 |  |
|  |  |  |  |  |  |  |  |
| **Workings:** |  |  |  |  |  |  |  |
| **Leases** |  |  |  |  |  |  |  |
|  |  |  | Payment | Opening Liability | Interest | Reduction of liability | Closing liability |
| 1 | Jan, 1st | 2021 | 11,03,000 | 19,44,86,000 | 0 | 4,000 | 19,44,82,000 |
| 2 | Dec, 31st | 2021 | 11,03,000 | 18,20,86,000 | 634 | 1,366 | 18,20,84,634 |
| 3 | Dec, 31st | 2021 | 11,03,000 | 19,68,33,000 | 497 | 1,503 | 19,68,31,497 |
| 4 | Dec, 31st | 2021 | 11,03,000 | 20,51,30,000 | 347 | 1,653 | 20,51,28,347 |
| 5 | Dec, 31st | 2021 | 11,03,000 | 18,19,00,000 | 181 | 1,819 | 18,18,98,181 |
|  |  |  |  |  |  |  |  |
| Leased asset atDecember 31st, 2021: |  |  |  |  |  |  |  |
| Depreciation: (123605 – 542) ÷ 10 years = 12306.3 | 12306.3 |  |  |  |  |  |  |
| Net Book Value: 123605 – 12306.3 = 111298.7 | 111298.7 |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| Deferred tax |  |  |  |  |  |  |  |
| Adjustment for: | X GAAP | IFRS | Difference | Deferred tax (20%) | A for asset, |  |  |
|  |  |  |
|  | Leased asset | 0 | 9,340 | -9,340 | 1,868 | L |  |  |
|  | Intangible assets | 4,000 | 0 | 4,000 | 800 | A |  |  |
| Prepaid expenses | 3,000 | 0 | 3,000 | 600 | A |  |  |
| Lease liability (non-current) | 0 | 3,472 | -3,472 | 694 | A |  |  |
| Provision | 10,000 | 0 | 10,000 | 2,000 | L |  |  |
| Lease liability | 0 | 1,503 | -1,503 | 301 | A |  |  |
| Deferred tax liability – Opening Statement of Financial Position | | | | | 1,473 |  |  |

**Table 4: Statement of financial position translation and the statement of income in 2021**

(Source: In MS Excel self created)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Translation table for IFRS Opening Statement of Financial Position at January 1st,2022 | | | | | | |  |
|  | X GAAP | Leases | Training | Provision | Deferred tax | IFRS |  |
| Fixed assets |  |  |  |  |  |  |  |
| Leased asset |  | 12,10,00,459 |  |  |  | 12,10,00,459 |  |
| Intangible assets | 1,23,73,000 |  | -12373000 |  |  | 0 |  |
| Prepaid expenses | 15,42,00,030 | -15,42,00,030 |  |  |  | 17,39,67,829 |  |
| Current assets |  |  |  |  |  |  |  |
| Cash | 16,42,51,000 |  |  |  |  | 16,42,51,000 |  |
| Total assets | 31,36,59,030 |  |  |  |  | 45,92,19,288 |  |
|  |  |  |  |  |  |  |  |
| Equity |  |  |  |  |  |  |  |
| Share capital | 15,77,39,000 |  |  |  |  | 15,77,39,000 |  |
| Retained earnings | 3,47,32,000 | 1,75,54,000 | -17,65,42,000 | -67,40,000 | -1,473 | -13,09,97,473 |  |
| Non-current liabilities |  |  |  |  |  | 0 |  |
| Lease liability |  | 6,40,35,130 |  |  |  | 6,40,35,130 |  |
| Deferred tax liability |  |  |  |  | 1,473 | 1,473 |  |
| Current liabilities |  |  |  |  |  | 0 |  |
| Provision | 1,52,27,000 |  |  | 67,40,000 |  | 2,19,67,000 |  |
| Current tax liability | 10,59,61,030 |  |  |  |  | 10,59,61,030 |  |
| Lease liability |  | 240513128 |  |  |  | 24,05,13,128 |  |
| Total equity and liabilities | 31,36,59,030 |  |  |  |  | 45,92,19,288 |  |
|  |  |  |  |  |  |  |  |
| Workings: |  |  |  |  |  |  |  |
| Leases |  |  |  |  |  |  |  |
|  |  |  | Payment | Opening Liability | Interest | Reduction of liability | Closing liability |
| 1 | Jan, 1st | 2022 | 11,03,000 | 19,36,49,000 | 0 | 4,000 | 19,36,45,000 |
| 2 | Dec, 31st | 2022 | 11,03,000 | 17,48,59,000 | 634 | 1,366 | 17,48,57,634 |
| 3 | Dec, 31st | 2022 | 11,03,000 | 18,45,21,000 | 497 | 1,503 | 18,45,19,497 |
| 4 | Dec, 31st | 2022 | 11,03,000 | 21,36,50,000 | 347 | 1,653 | 21,36,48,347 |
| 5 | Dec, 31st | 2022 | 11,03,000 | 17,54,25,000 | 181 | 1,819 | 17,54,23,181 |
|  |  |  |  |  |  |  |  |
| Leased asset atDecember 31st, 2021: |  |  |  |  |  |  |  |
| Depreciation: (123605 – 542) ÷ 10 years = 12306.3 | 12306.3 |  |  |  |  |  |  |
| Net Book Value: 123605 – 12306.3 = 111298.7 | 111298.7 |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| Deferred tax |  |  |  |  |  |  |  |
| Adjustment for: | X GAAP | IFRS | Difference | Deferred tax (20%) | A for asset, |  |  |
|  |  |  |
|  | Leased asset | 0 | 9,340 | -9,340 | 1,868 | L |  |  |
|  | Intangible assets | 4,000 | 0 | 4,000 | 800 | A |  |  |
| Prepaid expenses | 3,000 | 0 | 3,000 | 600 | A |  |  |
| Lease liability (non-current) | 0 | 3,472 | -3,472 | 694 | A |  |  |
| Provision | 10,000 | 0 | 10,000 | 2,000 | L |  |  |
| Lease liability | 0 | 1,503 | -1,503 | 301 | A |  |  |
| Deferred tax liability – Opening Statement of Financial Position | | | | | 1,473 |  |  |

**Table 5: Statement of financial position translation and the statement of income in 2022**

(Source: In MS Excel self created)

## 4.0 Preparation of financial statement required by IAS 1 on the financial position and performance

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| IFRS financial statements for 20X2 | | |  |  |  |  |
| Statement of financial position at 31 December 2022 | | | Statement of comprehensive income for 2022 | |  |  |
|  |  |  |  | IFRS |  |  |
|  |  |  |  | £ |  |  |
| Assets |  |  | Revenue | 241392000 |  |  |
| Current assets: | £ |  | Other Operating Income/(Expense) | 41447000 |  |  |
| Cash and cash equivalents | 29195000 |  | Operating Profit | 27798000 |  |  |
| Trade and other receivables | 10387000 |  | Finance Income | 430000 |  |  |
| Inventories | 28081000 |  | Exploration and Production Expenses | 13649000 |  |  |
| Other current assets | 107688000 |  | Distribution and Administration Expenses | 13449000 |  |  |
| Non-current assets: |  |  | Finance Costs | 2660000 |  |  |
| Property, plant and equipment | 3513000 |  | Cost of Sales | 186296000 |  |  |
| Goodwill and intangible assets | 11960000 |  | Profit Before Tax | 95013000 |  |  |
| Investments and other non-current assets | 576000 |  | Income Tax Expense | 16762000 |  |  |
| Total assets | 191400000 |  | Profit | 78251000 |  |  |
| Equity: |  |  |  |  |  |  |
| Share capital | 19097783 |  |  |  |  |  |
| Retained earnings | 347352 |  | Statement of changes in Equity for the year ended December 31st 2022 | | | |
| Other reserves | 12153000 |  |  | Share capital | Retained Earnings |  |
| Total equity | 31598135 |  | Balance at Jan 1, 2022 | 19097783 | 34732000 |  |
| Current liabilities: |  |  | Total comprehensive income | 78251000 | 78251000 |  |
| Short-term borrowings |  |  | Balance at Dec 31. 2022 | -59153217 | -43519000 |  |
| Trade and other payables | 10387000 |  |  |  |  |  |
| Current tax liabilities | 16762000 |  | Statement of cash flow |  |  |  |
| Other current liabilities | 99018000 |  | Indirect method |  |  |  |
| Non-current liabilities: |  |  | Cash Flows from Operating Activities |  |  |  |
| Long-term borrowings | 14992000 |  | Profit for the year | 78251000 |  |  |
| Other non-current liabilities | 1233000 |  | Adjustments for: |  |  |  |
| Deferred tax liabilities | 15405000 |  | Depreciation and amortization | 18065000 |  |  |
| Total liabilities | 157797000 |  | Impairment losses | 13537000 |  |  |
|  |  |  | Finance costs | 2660000 |  |  |
|  |  |  | Income tax expense | 16762000 |  |  |
|  |  |  | Changes in working capital: |  |  |  |
|  |  |  | Inventories | 28081000 |  |  |
|  |  |  | Trade and other receivables | 6447000 |  |  |
|  |  |  | Trade and other payables | 10387000 |  |  |
|  |  |  | Net cash generated from operation activities | 51368000 |  |  |
|  |  |  | Casg flow from financing activities |  |  |  |
|  |  |  | Repayment of debt | -11697000 |  |  |
|  |  |  | Cash flow from financing activities | -11697000 |  |  |
|  |  |  | Net increase in cash and cash equivalent | 63065000 |  |  |
|  |  |  | Cash and cash equivalent at beginning of period | 30681000 |  |  |
|  |  |  | Cash and cash equivalent at end of period | 29195000 |  |  |

**Table 6: financial statement required by IAS 1 on the financial position and performance**

(Source: In MS Excel self created) ***[Referred to appendix 2]***

## 5.0 Explanation of the impact of first adoption of IFRS on the financial position and performance

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Opening statement of financial position- reconcillatiion | | | | |  |  | Closing statement of financial position at December 31, 2022-reconcilliation | | | |
|  | UK GAAP | Note | Differences | IFRS |  |  |  | UK previous GAAP | Adjustments | IFRS |
| Assets |  |  |  |  |  |  | Assets |  |  |  |
| Property, plant and eqipment | £ 49,584 |  | £ 2,508 | £ 52,092 |  |  | Property, plant and equipment | £ 1,10,000 | -£ 10,000 | £ 1,00,000 |
| Intangiable assets | £ 12,270 |  | -£ 1,634 | £ 10,636 |  |  | Intangible assets | £ 20,000 | £ 5,000 | £ 25,000 |
| Investment in associates and Jvs | £ 7,719 |  | -£ 775 | £ 6,944 |  |  | Financial assets | £ 50,000 | £ 20,000 | £ 70,000 |
| Other non current assets | £ 7,897 |  | £ 49 | £ 7,946 |  |  | Pension assets |  | £ 15,000 | £ 15,000 |
| Inventories | £ 7,711 |  | -£ 1,062 | £ 6,649 |  |  | Total Assets | £ 1,80,000 | £ 30,000 | £ 2,10,000 |
| Trade and other receivables | £ 18,740 |  | -£ 95 | £ 18,645 |  |  | Liabilities and Equity |  |  |  |
| Cash and cash equivalent | £ 4,585 |  |  | £ 4,585 |  |  | Long-term debt | £ 60,000 | -£ 5,000 | £ 55,000 |
| Total assets | £ 1,08,506 |  | -£ 1,009 | £ 1,07,497 |  |  | Pension liabilities |  | £ 10,000 | £ 10,000 |
| Liabilities |  |  |  |  |  |  | Other liabilities | £ 20,000 | -£ 2,000 | £ 18,000 |
| Borrowings | £ 19,714 |  | -£ 251 | £ 19,463 |  |  | Equity | £ 1,00,000 | £ 27,000 | £ 1,27,000 |
| Other non current liabilities | £ 7,284 |  |  | £ 7,284 |  |  | Total Liabilities and Equity | £ 1,80,000 | £ 30,000 | £ 2,10,000 |
| trade and other payables | £ 22,071 |  | £ 437 | £ 22,508 |  |  |  |  |  |  |
| Provisions | £ 4,399 |  | -£ 1,374 | £ 3,025 |  |  |  |  |  |  |
| Total liabilities | £ 53,468 |  | -£ 1,188 | £ 52,280 |  |  |  |  |  |  |
| Net assets | £ 55,038 |  | £ 179 | £ 55,217 |  |  |  |  |  |  |
| Equity |  |  |  |  |  |  |  |  |  |  |
| Share capital and premium | £ 11,500 |  |  | £ 11,500 |  |  |  |  |  |  |
| Reserves | £ 43,538 |  | -£ 9,781 | £ 33,757 |  |  |  |  |  |  |
| Total equity | £ 55,038 |  | -£ 9,781 | £ 45,257 |  |  |  |  |  |  |

**Table 7: Explanation of the impact of first adoption of IFRS on the financial position and performance**

(Source: In MS Excel self created)

The international financial reporting system adoption can have a major impact on the financial position and the performance of the company of an entity. For the entities the requirements are set out through the IFRS 1, that the first time adoption of IFRS includes the comparative statement restatement, and certain information disclosure. One of the major impacts of the adoption of the IFRS is major changes in the treatments of accounting (Napier and Stadler, 2020). For certain transactions compared to the previous standards of accounting have major impact on the standards of accounting (Molina and Gómez, 2022). The amounts reported in the financial statements can get changed in this regard majorly that in turn will affect the financial performance and the position of the entity. In addition to that the IFRS adoption might result in changes to the classification and presentation, of the financial information in the financial statement. This will affect the performance and financial position of the entity also.

In addition to that the adoption of the IFRS might result in changes to the classification and presentation of financial information in the financial statements. The primary objective of the investment manager is minimizing the risks, and maximizing the returns. That is the reason for the management of the risk of the portfolio of investment various steps needed to be followed, and those steps are mentioned here.

The first step is diversification. In the portfolio of investment, the key to the management of risk is diversification. Across various industries, sectors, and regions the portfolio is going to be diversified to reduce the exposure of risk to any single market or company. According to the requirement of the client, 15 global equities minimum are going to be selected from at least three different exchanges of stock. The desired return achievement chances get increased because of this and with the help of this, the risk is also spread. The second step is the allocation of assets. The portfolio assets are going to be allocated strategically for the desired return achievement while doing risk minimization. The risk tolerance of the client is going to be considered in this regard, with the financial goals and investment horizon while determining the strategy of allocation of assets. The factors that are considered in this regard are trends of the market, geopolitical risk, and economic conditions while making decisions regarding the investment.

The third step is techniques of risk management, the techniques of risk management going to be used are portfolio rebalancing to manage risk, hedging, and stop loss orders. To limit the losses the use of stop loss orders can be done through security selling if, below a certain price, it drops. By taking a position in the derivatives hedging can be done to offset potential losses. The desired strategy of allocation of assets and risk reduction can be done through portfolio rebalancing.

The fourth step is evaluation and regular monitoring. The performance of the portfolio is going to be monitored on a regular basis, and the risk is going to be evaluated with it is associated. The required adjustments are going to be done to get sure that while minimizing the risk to get needed returns. The fifth step is the risk management tools usage. There are various risk management tools available that can be used for managing risk, which is important for portfolio risk management. An example regarding it is the stop loss orders can be used to limit individual stock losses or options can be used to hedge against the volatility of the market.

These above-mentioned steps are going to be followed to manage the investment portfolio risk while achieving the 14% per annum minimum desired return from the client. In the form of an investment manager in construction, the first step in the investment portfolio for the client will be the appropriate allocation strategy of asset identification that meets the objectives of return and risk. It is needed that the client's desire for high returns must be balanced carefully with their desire for risk minimization. In equities generally, the investment that is done comes with a higher level of risk compared to the classes of assets which include cash, and bonds. That is the reason the diversified portfolio is aimed to be identified of high equities of growth across various exchanges of global stock for the client risk reduction.

For the portfolio to select shares the bottom-up and top-down approach combination is going to use. The global microeconomic trends are going to be analyzed, and the best-performing sectors are going to be identified with the industries. Then individual companies are going to be narrowed down to the individual company with strong fundamentals in those sectors. It includes debt-to-equity ratios, dividends, earnings, and revenue growth. The potential leaders of the market are going to be identified through this approach with stocks' high growth.

In the bottom-up approach, it is needed to perform individual companies' thorough analysis in terms of statement of cash flow, balance sheet, and income statement. Companies that have healthy financials, growth prospects, and competitive advantage those companies must be looked forward at first. The effectiveness of the team is needed to be evaluated with their track record of shareholder value creation.

For ensuring diversification across multiple sectors equities is going to be selected with the industries. The industries in this regard include financials, healthcare, technology, and global stock exchanges of at least three. The portfolio balance is needed to be aimed in this regard between the high-growth potential emerging companies, and the companies that have proven track records.

For investment portfolio construction, the methods that are evaluated critically are very much required to consider the risks and limitations that are involved. While high growth equities diversified portfolio across various global stock exchanges might reduce the risk of the client, entirely the risk is not eliminated by it (Saptono and Khozen, 2021). The market volatility possibility is always present in this regard and the portfolio performance will get impacted by events that are unexpected. Also, equities selection also depended on the financials and historical performance which might not guarantee success in the future.

From the discussion above it is understood that the strategy of investment will focus on creating a global equities diverse portfolio that optimizes sustainability and long-term growth while minimizing the exposure of risk. A risk management strategy is going to be implemented that includes hedging and portfolio rebalancing to mitigate the potential market volatility impact. In the final stage, the CAGR achievement will be 14% per annum at least over the period of investment of 10 years by leveraging the expertise of the team in the analysis of the research and market to identify the emerging opportunities and trends in the market. ***[Referred to appendix 1]***

## 6.0 Problems relating to first time adoption of the IFRS in the UK

Many challenges are posed in the UK through the first adoption of IFRS for entities of business. One of the major issues is the lack of support and guidance to help companies implement, and understand new standards (Hsu and Reid, 2021) Because of these errors and confusion occurred in the application of the standards. The standards of IFRS are very much is very much complex, and many of organizations found it challenging to apply, and understand them correctly. For medium and small-sized businesses, it is very much true, which have limited resources for the devotion to the implementation of limited resources. The implementation of IFRS needed companies to collect more detailed information regarding the finance. Many companies found it very much challenging to process and collect this data that often needed major changes to their processes and system of accounting. A new set of standards of accounting set by the IFRS, and many companies found it challenging to train their staff on the new requirements. The importance of this training is very much present because for accounting and finance staff is needed to understand the new standard and correctly they needed to apply them also. The expensive nature is noticed in the implementation of the IFRS majorly for the medium, and small sized enterprises. The external consultants hiring cost provide help in implementation, and upgradation of accounting system, and in this regard the significance of the training staff is majorly noticed. The time consuming nature is noticed in the implementation of the IFRS, and it needed a major investment of resources and time. The procedures and policies regarding accounting are needed to be developed by the companies. The new systems are also needed to be implemented with the training, and processing of the staffs on the new standards.

If judged on an overall basis the IFRS first time adoption in the UK presents major challenges for many countries. However the proper implementation, planning, and training is needed by the companies through which successful adaptation of the IFRS is possible to be done.

In the form of an investment manager, it is needed very much to understand the market risk and exchange rate volatility impact on the portfolio. When in the currency values fluctuation is noticed at that time exchange rate volatility is noticed in the currency values that to each other are relative. This can impact the investment returns that in foreign currencies are dominated. The market risk to the risk is that risk where for various factors the risk losses happen. An example regarding it is geopolitical events, rates of interest, and the condition of the economy.

15 global equities are comprised in a portfolio of at least a minimum of three global exchanges, market risk, and volatility in the rate of exchange that have a major impact on the performance of the portfolio. In foreign currencies, though the investments are done, that is the reason in the rates of exchange fluctuations are noticed through which returns can get impacted. In the other side if appreciation in the currency happens, at that time increase in the returns is noticed.

Through the performance of the portfolio, the impact of the market risk can be noticed majorly. Other factors, geopolitical events, rates of interest, and conditions of the economy can impact the stock market's overall performance. Because of this portfolio value can get affected majorly. That is the reason it is very much important that portfolio diversification in various sectors must be done which also includes the geographical regions, and industries to mitigate the market risk impact (Suman 2022). In addition to that using the techniques of risk management might also help in market risk management. It includes future contracts, options, and stop-loss orders. From the discussion, it is understood that market risk and exchange rate volatility can impact majorly the portfolio performance that comprises global equities from exchanges of multiple stocks. It is very much required closely to monitor risk and make portfolio diversification across different regions, industries, and sectors to remove their impact.

On the portfolio, the risk of the market, and volatility of the exchange rate can have a major impact, because both can affect the risk and the return that with it is associated. In the one currency fluctuations are noticed because of the exchange volatility that to one another is relative. In the currency where investment is done if relative to the home currency gets depreciated, then the reduction is done on the investment returns which are to the home currency is converted. In the overall portfolio return overall the decrease is noticed in this regard.

With the specific sector or market, the risk that is linked is known in the name of market risk. Geopolitical events, conditions of the economy, and the rate of interest are included in it. All investments return can get affected by market risk and management and prediction of it becomes very much difficult. For the minimization of the risk in the market, and the volatility the portfolio is needed to be diversified through the various sectors of investment with the classes of assets, regions, and various sectors. In addition to that the strategies of hedging are going to be used to provide currency fluctuations protection. It includes options and forwards of currency.

In this required to be noted that high returns are not guaranteed by minimization of risk, and with a higher risk the higher return might come. In the form of an investment manager, the major role is balancing the return and risk to meet the investment goal of the client with the objectives.

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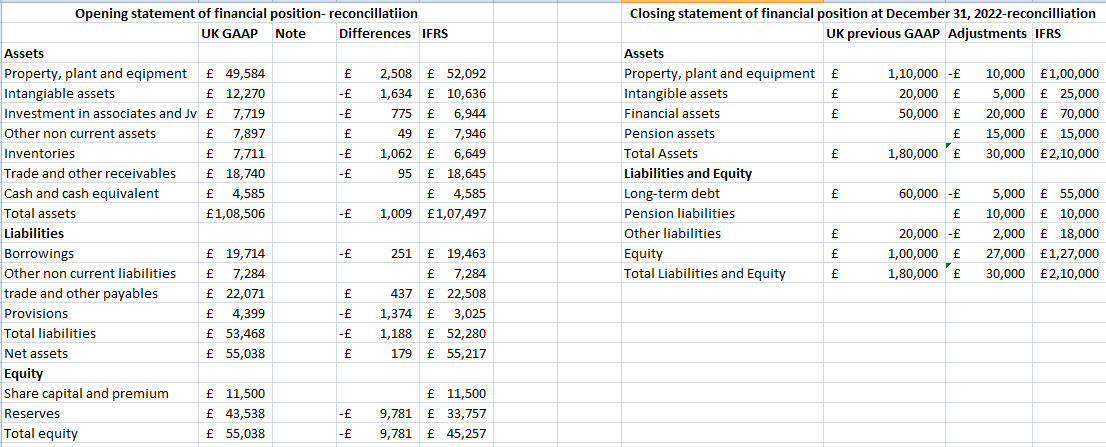
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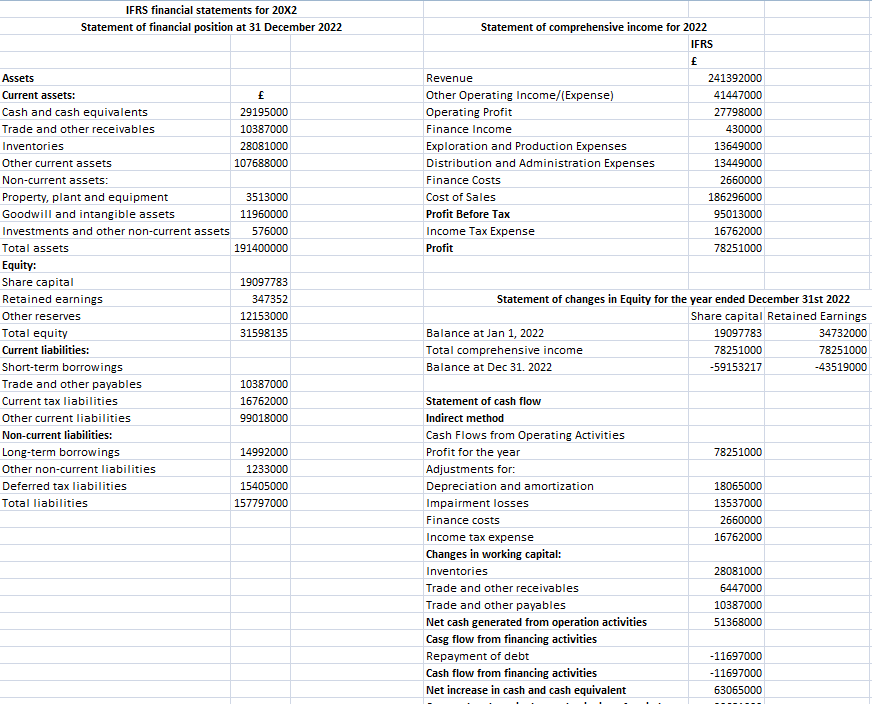
# Appendices

**Appendix 1: Impact of first adoption of IFRS on the financial position and performance**



**(Source: In MS Excel self created)**

**Appendix 2: financial statement required by IAS 1 on the financial position and performance**



**(Source: In MS Excel self created)**