This draft of an Exposure Draft (ED) has been prepared by the IASB's staff for the IASB's project to develop an International Financial Reporting Standard for Small and Medium-sized Entities (SMEs). That project is ongoing, and further changes will be made to this draft before the IASB publishes it for public comment. The IASB has discussed earlier drafts of this ED at public meetings, and this draft reflects the cumulative, tentative decisions made to date by the IASB at meetings up to the conclusion of its meeting in October 2006. Those tentative decisions have been reported in the newsletter IASB *Update*.

The IASB has not approved this draft. The draft is being made publicly available solely for information—to give interested parties an update on the project. The IASB does not request comments on this draft, and the staff will not be in a position to consider or respond to any comments. The IASB expects to publish an ED for public comment later this year.

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Staff Draft - Not for Comment

INTERNATIONAL FINANCIAL REPORTING STANDARD FOR SMALL AND MEDIUM-SIZED ENTITIES (IFRS for SMEs)

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Invitation to Comment

The International Accounting Standards Board invites comments on any aspect of the Exposure Draft of its proposed International Financial Reporting Standard *Small and Medium-sized Entities*. It would particularly welcome answers to the questions set out below. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

Comments should be submitted in writing so as to be received no later than **30 June 2007.**

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Question 1 – Stand-alone document

In deciding on the content of the draft IFRS for SMEs, the IASB focused on the types of transactions, events and circumstances typically encountered by an SME with about 50 employees. For such an entity, the proposed IFRS is intended to be a stand-alone document, with cross-references to full IFRSs minimised.

With the objective of a stand-alone document in mind, are there additional transactions, events or circumstances that should be covered in the proposed IFRS to make it more self-contained? Conversely, is there guidance in the draft IFRS that should be removed because it is not relevant to a typical SME with about 50 employees?

Question 2 – Recognition and measurement simplifications that the Board adopted

The draft IFRS for SMEs was developed by:

(a) extracting the fundamental concepts from the IASB *Framework* and the principles and related mandatory guidance from IFRSs (including Interpretations), and

(b) considering the modifications that are appropriate based on user needs and cost-benefit considerations.

Paragraph BC55 of the Basis for Conclusions describes the simplifications of recognition and measurement principles contained in other IFRSs that have been made in the draft IFRS for SMEs and explains the Board's reasoning. The topics of

those simplifications are financial instruments (including classification of financial instruments, derecognition and hedge accounting), goodwill impairment, research and development costs, investments in associates and joint ventures, income taxes, agriculture, employee benefits, share-based payment, and first-time adoption.

Are there other recognition or measurement simplifications that the Board should consider? In responding, please indicate:

(a) the specific accounting recognition or measurement problem for an SME under IFRSs;

(b) the specific transactions or events that create the recognition or measurement problem for an SME under IFRSs;

(c) why it is a problem; and

(d) how that problem might be solved.

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Question 3 – Recognition and measurement simplifications that the Board considered but did not adopt

Paragraphs BC56-BC66 identify some recognition and measurement simplifications that the Board considered but decided not to adopt, for the reasons noted. These include not requiring a cash flow statement, treating all leases as operating leases, treating all employee benefit plans as defined contribution plans, using only the completed contract method for long-term contracts, requiring fewer provisions, non-recognition of share-based payment, non-recognition of deferred taxes, using the cost model for all agriculture, and no consolidated financial statements.

Should the Board reconsider any of those and, if so, why?

Question 4 – Whether all accounting policy options in full IFRSs should be available to SMEs

The draft IFRS for SMEs proposes that all accounting policy options available under full IFRSs should also be available to SMEs. As explained more fully in paragraphs BC67-BC74 of the Basis for Conclusions, the Board concluded that prohibiting an SME from using an accounting policy option that is available to entities using full IFRSs might put SMEs at a disadvantage and could hinder comparability between SMEs and entities following full IFRSs. At the same time, the Board recognised that most SMEs are likely to prefer the simpler option in the proposed IFRS. Therefore,

the Board concluded that where full IFRSs allow accounting policy options, the IFRS for SMEs should include only the simpler option, and the other (more complex) options should be available to SMEs by cross-reference to the full IFRSs. This policy has been implemented in the following circumstances: investment property; property, plant and equipment; intangible assets; borrowing costs; presentation of operating cash flows in the cash flow statement; and accounting for government grants.

Should any of these options that would be available to SMEs by cross-reference to the full IFRSs be eliminated from the proposed IFRS for SMEs and, if so, why?

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Question 5 – Whether the options from full IFRSs that are included in the IFRS for SMEs are the appropriate ones

As noted in Question 4, in six circumstances in which full IFRSs allow accounting policy options, the draft IFRS for SMEs includes only one of the options (the one thought to be most appropriate for SMEs). The other options are made available to SMEs by cross-reference to the full IFRSs.

Do you agree with the Board's proposals as to which options are thought to be the most appropriate for SMEs? If not, which one(s) would you change, and why?

Question 6 – Topics not addressed in the proposed IFRS for SMEs

Some topics addressed in full IFRSs are omitted from the draft IFRS for SMEs because the Board believes that the typical SME is not likely to encounter such transactions. These are hyperinflation, equity-settled share-based payment, application of the fair value method for agriculture, interim financial reporting, and lessor accounting for finance leases (these are further discussed in paragraph BC51 of the Basis for Conclusions). The draft IFRS requires SMEs that have such transactions to follow the relevant full IFRS by an explicit cross-reference.

Should any additional topics be omitted from the IFRS for SMEs and replaced by an explicit cross-reference. If so, which ones and why?

If an individual jurisdiction believes that many SMEs in that jurisdiction are likely to encounter transactions that are covered in one of the cross-referenced IFRSs, should that jurisdiction be permitted to attach the relevant IFRS, in full, as an appendix to its locally adopted version of the IFRS for SMEs?

Question 7 – General referral back to full IFRSs

When the draft IFRS for SMEs does not address a transaction, event or condition directly or by analogy and does not provide an explicit cross-reference back to an IFRS, an SME is required to look to the requirements and guidance in IFRSs and Interpretations of IFRSs dealing with similar and related issues (paragraph 10.3 of Section 10 *Accounting Policies, Estimates and Errors)*. As noted in Question 1, the IFRS for SMEs is intended to be a stand-alone document for a typical SME. Therefore, this general referral back to full IFRSs is in the nature of a 'safety net' that the Board expects to be invoked in only limited circumstances.

Should this general referral back to full IFRSs be retained, or is the draft IFRS for SMEs coupled with the explicit cross-references back to an IFRS in specific circumstances sufficiently self-contained to eliminate the need for the general referral? Why or why not?

Question 8 – Whether to recognise foreign exchange differences and revaluation increases in profit or loss

The draft IFRS for SMEs proposes that an SME should recognise items of income or expense directly in equity in only two circumstances:

(a) Paragraphs 11.38 and 11.39 provide that an SME shall recognise changes in the fair value of some hedging instruments directly in equity.

(b) Paragraph 30.13 provides that, in consolidated financial statements, an SME shall recognise directly in equity a foreign exchange difference (gain or loss) arising on a monetary item that forms part of the reporting entity's net investment in a foreign operation (subsidiary, associate or joint venture).

Additionally, an SME that chooses the revaluation model either for a class of property, plant and equipment (see paragraph 16.13) or for a class of intangible assets (see paragraph 17.23) would credit increases in the asset's carrying amount directly to equity as a revaluation surplus.

In developing the draft IFRS for SMEs, the Board considered whether to require that an SME should recognise the foreign exchange gains or losses and revaluation increases in profit or loss, rather than directly in equity. This would be consistent with one of the two approaches proposed in the Board's Exposure Draft *A Revised Presentation*—Proposed Amendments to IAS 1 *Presentation of Financial Statements* (published March 2006) by which all components of income and expense recognised

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in a period would be presented in a single statement of recognised income and expense. It would also be substantially consistent with the second proposed approach, which would present all components of income and expense recognised in a period in two statements but would not permit presenting any components of income and expense (ie non-owner changes in equity) in the statement of changes in equity. (Because the Board has begun a comprehensive project on financial instruments as part of its convergence efforts with the US Financial Accounting Standards Board, the Board did not consider requiring that SMEs recognise changes in the fair value of all hedging instruments in profit or loss at this time.)

Should the Board, in the IFRS for SMEs, require an SME to recognise foreign exchange gains and losses and revaluation increases in profit or loss, rather than directly in equity, as this Exposure Draft proposes?

Question 9 – Adequacy of guidance

The draft IFRS for SMEs is accompanied by some implementation guidance, most notably a complete set of illustrative financial statements and a disclosure checklist. A sizeable amount of guidance that is in full IFRSs is not included, and there may be a need for additional guidance especially tailored to the needs of an SME applying the proposed IFRS.

Are there specific areas for which SMEs are likely to need additional guidance? What are they, and why?

Question 10 – Adequacy of disclosures

Each section of the proposed IFRS for SMEs includes disclosure requirements. Those requirements are summarised in the disclosure checklist that is part of the proposed implementation guidance *Illustrative Financial Statements and Disclosure Checklist*.

Are there disclosures that are not proposed that the Board should require for SMEs and, if so, which ones and why? Conversely, do you believe that any of the proposed disclosures should not be required for SMEs and, if so, which ones and why?

Question 11 – Transition guidance

Section 38 *Transition to the IFRS for SMEs* provides transition guidance for an SME that moves (a) from national GAAP to the IFRS for SMEs and (b) from full IFRSs to the IFRS for SMEs.

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Do you believe that the guidance is adequate and, if not, how can it be improved?

Question 12 – Maintenance of the IFRS for SMEs

The Board expects to publish an 'omnibus' exposure draft of proposed amendments to the IFRS for SMEs approximately every other year. In developing such exposure drafts, the Board expects to consider new and amended IFRSs that have been adopted in the previous two years as well as specific issues that have been brought to its attention regarding possible amendments to the IFRS for SMEs. On occasion, the Board may identify a matter for which amendment of the IFRS for SMEs may need to be considered earlier than in the normal two-year cycle.

Is the foregoing approach to maintaining the proposed IFRS for SMEs appropriate, or should it be modified and, if so, how and why?

Question 13 – Borrowing costs

IAS 23 *Borrowing Costs* currently allows entities to choose either the expense model or the capitalisation model to account for all of their borrowing costs. In May 2006, the IASB published an Exposure Draft proposing to amend IAS 23 to prohibit the expense model and to require the capitalisation model. Section 24 *Borrowing Costs* of the draft IFRS for SMEs proposes to allow SMEs to choose either the expense model or the capitalisation model.

Do you agree or disagree with the proposal to allow SMEs to choose either the expense model or the capitalisation model for borrowing costs, and why?

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PREFACE

The IASB

1 The International Accounting Standards Board (IASB) was established in 2001 as part of the International Accounting Standards Committee (IASC) Foundation.

2 The objectives of the IASC Foundation and of the IASB are:

(a) to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions;

(b) to promote the use and rigorous application of those standards;

(c) in fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies; and

(d) to bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards to high quality solutions.

3 The governance of the IASC Foundation rests with 22 Trustees. The Trustees' responsibilities include appointing the members of the IASB and associated councils and committees, as well as securing financing for the organisation.

4 The IASB is the standard-setting body of the IASC Foundation. The IASB comprises twelve full-time and two part-time members. The IASB is responsible for approving **INTERNATIONAL FINANCIAL REPORTING STANDARDS** (IFRSs) and related documents, such as the *Framework for the Preparation and Presentation of Financial Statements (*the *Framework)*, exposure drafts, discussion documents, and Interpretations of IFRSs. Before the IASB began operations, International Accounting Standards (IASs) and related Interpretations were established by the Board of IASC, which came into existence on 29 June 1973. By resolution of the IASB, IASs and related

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Interpretations remain applicable, with the same authority as IFRSs developed by the IASB, unless and until they are amended or withdrawn by the IASB.

International Financial Reporting Standards

5 The IASB achieves its objectives primarily by developing and publishing IFRSs and promoting the use of those standards in general purpose financial statements and other financial reporting. Other financial reporting comprises information provided outside financial statements that assists in the interpretation of a complete set of financial statements or improves users' ability to make efficient economic decisions. The term 'financial reporting' encompasses general purpose financial statements plus other financial reporting.

6 IFRSs set out recognition, measurement, presentation and disclosure requirements dealing with transactions and other events and conditions that are important in general purpose financial statements. They may also set out such requirements for transactions, events, and conditions that arise mainly in specific industries. IFRSs are based on the *Framework*, which addresses the concepts underlying the information presented in general purpose financial statements. The objective of the *Framework* is to facilitate the consistent and logical formulation of IFRSs. The *Framework* also provides a basis for the use of judgement in resolving accounting issues.

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General purpose financial statements

7 IFRSs are designed to apply to the **GENERAL PURPOSE FINANCIAL STATEMENTS** and other financial reporting of all profit-oriented entities. General purpose financial statements are directed towards the common information needs of a wide range of users, for example, shareholders, creditors, employees and the public at large. The objective of financial statements is to provide information about the financial position, performance and cash flows of an entity that is useful to those users in making economic decisions.

8 General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. General purpose financial statements include

those that are presented separately or within another public document such as an annual report or a prospectus.

IFRS for SMEs

9 The International Accounting Standards Board (IASB) also develops and publishes a separate International Financial Reporting Standard intended to apply to the general purpose financial statements of, and other financial reporting by, entities that in many countries are known as **SMALL AND MEDIUM-SIZED ENTITIES** (SMEs). That standard is the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs).

10 The term SME as used by the IASB is defined in Section 1 *Scope* of this IFRS. Many jurisdictions around the world have developed their own definitions of the term SME for a broad range of purposes including prescribing financial reporting obligations. Often those national or regional definitions include quantified criteria based on revenue, assets, employees or other factors. Frequently, the term SME is used to mean or to include very small entities without regard to whether they publish general purpose financial statements for external users.

11 SMEs often produce financial statements only for the use of owner-managers, or for tax reporting or other non-securities regulatory filing purposes. Financial statements produced solely for those purposes are not necessarily general purpose financial statements.

12 Because tax laws are specific to each jurisdiction, and the objectives of general purpose financial reports differ from the objectives of reporting taxable income, financial statements prepared in conformity with the IFRS for SMEs are unlikely to comply fully with all of the measurements required for tax laws and regulations. Jurisdictions may be able to lessen the 'dual reporting burden' on SMEs by structuring tax reports as reconciliations from the IFRSs for SME and by other means.

Authority of the IFRS for SMEs

13 Decisions on which entities are required or permitted to use the IASB's standards rest with national regulatory authorities and standard-setters. This is true for full IFRSs and for the IFRS for SMEs. However, a clear definition of

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the class of entity for which the IFRS for SMEs is intended—as set out in the Scope section of the IFRS for SMEs—is essential so that (a) the Board can decide on the standards that are appropriate for that class of entity and (b) national regulatory authorities, standard-setters, and reporting entities and their auditors will be informed of the intended scope of applicability of the IFRS for SMEs.

Organisation of the IFRS for SMEs

14 The IFRS for SMEs is organised by topic, with each topic presented in a separate numbered section. Cross-references to paragraphs in this IFRS are identified by section number followed by paragraph number. Cross-references to International Financial Reporting Standards (IFRSs) are identified by the full name and number of the IFRS.

15 Definitions of key terms are included in a glossary. The first time a key term is used in a section, it is shown in **SMALL CAPITAL LETTERS**.

16 All of the paragraphs in this IFRS are part of the IFRS for SMEs and have equal authority. Some sections of this IFRS include appendices of implementation guidance that are not part of this IFRS but, rather, are guidance for applying this IFRS.

Maintenance of the IFRS for SMEs

17. The Board expects to publish an 'omnibus' Exposure Draft of proposed amendments to the IFRS for SMEs approximately every other year. In developing that Exposure Draft, the Board expects to consider new and amended IFRSs that have been adopted in the previous two years as well as specific issues that have been brought to its attention regarding possible amendments to the IFRS for SMEs. On occasion, the Board may identify a matter for which amendment of the IFRS for SMEs may need to be considered earlier than in the normal two-year cycle. Until the IFRS for SMEs is amended, any changes that the IASB may make or propose with respect to IFRSs do not apply to the IFRS for SMEs.

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SECTION 1 SCOPE

1.1 The IFRS for SMEs (this IFRS) is intended for use by **SMALL AND MEDIUM-SIZED ENTITIES** (SMEs). SMEs are entities that:

(a) do not have public accountability; and

(b) publish general purpose financial statements for external users. Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies.

1.2 An entity has public accountability if:

(a) it files, or it is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; or

(b) it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance entity, securities broker/dealer, pension fund, mutual fund or investment banking entity.

1.3 If a publicly accountable entity uses this IFRS, its financial statements shall not be described as conforming to the IFRS for SMEs—even if national law or regulation permits or requires this IFRS to be used by publicly accountable entities.

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SECTION 2 CONCEPTS AND PERVASIVE PRINCIPLES

Objective of financial statements of an SME

2.1 The **OBJECTIVE OF FINANCIAL STATEMENTS** of an SME is to provide information about the **FINANCIAL POSITION**, **PERFORMANCE** and **CASH FLOWS** of that entity that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs. In meeting that objective, financial statements also show the results of management's stewardship of the resources entrusted to it.

Qualitative characteristics of information in financial statements

Understandability

2.2 The information provided in financial statements should be presented in a way that makes it comprehensible by users who have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence. However, the need for understandability does not allow relevant information to be omitted on the grounds that it may be too difficult for some users to understand.

Relevance

2.3 The information provided in financial statements must be relevant to the decision-making needs of users. Information has the quality of **RELEVANCE** when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.

Materiality

2.4 Information is **MATERIAL** if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. However, it is inappropriate to make, or leave uncorrected, immaterial departures from the IFRS for SMEs to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

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Reliability

2.5 The information provided in financial statements must be **RELIABLE.** Information is reliable when it is free from material error and bias and represents faithfully that which it either purports to represent or could reasonably be expected to represent. Financial statements are not free from bias if, by the selection or presentation of information, they are intended to influence the making of a decision or judgement in order to achieve a predetermined result or outcome.

Substance over form

2.6 Transactions and other events should be accounted for and presented in accordance with their substance and economic reality and not merely their legal form. This enhances the reliability of financial statements.

Prudence

2.7 The uncertainties that inevitably surround many events and circumstances are recognised by the disclosure of their nature and extent and by the exercise of prudence in the preparation of the financial statements. **PRUDENCE** is the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow the deliberate understatement of assets or income, or the deliberate overstatement of liabilities or expenses. In short, prudence does not permit bias.

Completeness

2.8 To be reliable, the information in financial statements must be complete within the bounds of materiality and cost. An omission can cause information to be false or misleading and thus unreliable and deficient in terms of its relevance.

Comparability

2.9 Users must be able to compare the financial statements of an entity through time in order to identify trends in its financial position and performance. Users must also be able to compare the financial statements of different entities in order to evaluate their relative financial position, performance and cash flows. Hence, the measurement and display of the financial effect of like

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transactions and other events must be carried out in a consistent way throughout an entity and over time for that entity and in a consistent way for different entities. In addition, users must be informed of the **ACCOUNTING POLICIES** employed in the preparation of the financial statements, any changes in those policies and the effects of such changes.

Timeliness

2.10 To be relevant, financial information must be able to influence the economic decisions of users. **TIMELINESS** involves providing the information within the decision time frame. If there is undue delay in the reporting of information it may lose its relevance. Management may need to balance the relative merits of timely reporting and the provision of reliable information. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the economic decision-making needs of users.

Balance between benefit and cost

2.11 The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and costs is substantially a judgemental process. Furthermore, the costs do not necessarily fall on those users who enjoy the benefits. In applying a costs and benefits test, an entity should recognise that the benefits of the information may also be enjoyed by a broad range of external users.

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Financial position

2.12 The **FINANCIAL POSITION** of an entity is its assets, liabilities and equities at a point in time. The elements directly related to the measurement of financial position are assets, liabilities and equity. These are defined as follows:

(a) **Asset.** An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

(b) **Liability.** A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

(c) **Equity.** Equity is the residual interest in the assets of the entity after deducting all its liabilities.

2.13 Some items that meet the definition of an asset or a liability may not be recognised as assets or liabilities in the balance sheet because they do not satisfy the criteria for recognition in paragraphs 2.24-2.29. In particular, the expectation that future economic benefits will flow to or from an entity must be sufficiently certain to meet the probability criterion before an asset or liability is recognised.

Assets

2.14 The future economic benefit of an asset is its potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity. Those cash flows may come from using the asset or from disposing of it.

2.15 Many assets, for example property, plant and equipment, have a physical form. However, physical form is not essential to the existence of an asset; some assets are intangible.

2.16 In determining the existence of an asset, the right of ownership is not essential; thus, for example, property held on a lease is an asset if the entity controls the benefits that are expected to flow from the property.

Liabilities

2.17 An essential characteristic of a liability is that the entity has a present obligation to act or perform in a particular way. The obligation may be either a legal obligation or a **CONSTRUCTIVE OBLIGATION**. A legal obligation is legally enforceable as a consequence of a binding contract or statutory requirement. A constructive obligation is an obligation that derives from an entity's actions where:

(a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and

(b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

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2.18 The settlement of a present obligation usually involves the payment of cash; transfer of other assets; provision of services; the replacement of that obligation with another obligation; or conversion of the obligation to equity. An obligation may also be extinguished by other means, such as a creditor waiving or forfeiting its rights.

Equity

2.19 Equity is the residual of recognised assets minus recognised liabilities. It may be subclassified in the balance sheet. For example, in a corporate entity, subclassifications may include funds contributed by shareholders, retained earnings and gains or losses reported directly in equity.

Performance

2.20 The **PERFORMANCE** of an entity is its income and expenses for a period. Profit is frequently used as a measure of performance or as the basis for other measures, such as return on investment or earnings per share. The elements directly related to the measurement of profit are income and expenses. These are defined as follows:

(a) **Income.** Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.

(b) **Expenses.** Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

2.21 The recognition of income and expenses in the income statement results directly from the recognition and measurement of assets and liabilities. Criteria for the recognition of income and expenses are discussed in paragraphs 2.24-2.29.

Income

2.22 The definition of income encompasses both revenue and gains.

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(a) **Revenue.** **REVENUE** is income that arises in the course of the ordinary activities of an entity and is referred to by a variety of different names including sales, fees, interest, dividends, royalties and rent.

(b) **Gains.** **GAINS** are other items that meet the definition of income but that are not revenue. When gains are recognised in the income statement, they are usually displayed separately because knowledge of them is useful for making economic decisions.

Expenses

2.23 The definition of expenses encompasses losses as well as those expenses that arise in the course of the ordinary activities of the entity.

(a) **Expenses.** Expenses that arise in the course of the ordinary activities of the entity include, for example, cost of sales, wages and depreciation. They usually take the form of an outflow or depletion of assets such as cash and cash equivalents, inventory, property, plant and equipment.

(b) **Losses.** **LOSSES** are other items that meet the definition of expenses and may, or may not, arise in the course of the ordinary activities of the entity. When losses are recognised in the income statement, they are usually displayed separately because knowledge of them is useful for making economic decisions.

Recognition of the elements of financial statements

2.24 **RECOGNITION** is the process of incorporating in the balance sheet or income statement an item that meets the definition of an element and that satisfies the following criteria:

(a) it is probable that any future economic benefit associated with the item will flow to or from the entity; and

(b) the item has a cost or value that can be measured reliably.

2.25 The failure to recognise an item that satisfies these criteria is not rectified by disclosure of the accounting policies used or by notes or explanatory material.

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The probability of future economic benefit

2.26 The concept of probability is used in the recognition criteria to refer to the degree of uncertainty that the future economic benefits associated with the item will flow to or from the entity. Assessments of the degree of uncertainty attaching to the flow of future economic benefits are made on the basis of the evidence relating to conditions at the end of the reporting period available when the financial statements are prepared. Those assessments are made individually for individually significant items, and for a group for a large population of individually insignificant items.

Reliability of measurement

2.27 The second criterion for the recognition of an item is that it possesses a cost or value that can be measured with reliability. In many cases, the cost or value of an item is known. In other cases it must be estimated. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability. When a reasonable estimate cannot be made, the item is not recognised in the balance sheet or income statement.

2.28 An item that fails to meet the recognition criteria may qualify for recognition at a later date as a result of subsequent circumstances or events.

2.29 An item that fails to meet the criteria for recognition may nonetheless warrant disclosure in the notes, explanatory material or in supplementary schedules. This is appropriate when knowledge of the item is relevant to the evaluation of the financial position, performance and changes in financial position of an entity by the users of financial statements.

Measurement of the elements of financial statements

2.30 **MEASUREMENT** is the process of determining the monetary amounts at which an entity measures assets, liabilities, income and expenses in its financial statements. Measurement involves the selection of a basis of measurement. This IFRS specifies which measurement basis an entity shall use for many types of assets, liabilities, income and expenses.

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2.31 Two common measurement bases are:

(a) **Historical cost.** For assets, historical cost is the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire the asset at the time of its acquisition. For liabilities, historical cost is the amount of proceeds of cash or cash equivalents received or the fair value of non-cash assets received in exchange for the obligation at the time the obligation is incurred.

(b) **Fair value.** **FAIR VALUE** is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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Pervasive recognition and measurement principles

2.32 The requirements for recognising and measuring assets, liabilities, income and expenses in this IFRS are based on pervasive principles that are derived from the IASB *Framework for the Preparation and Presentation of Financial Statements.* In the absence of a requirement in this IFRS that applies specifically to a transaction or other event or condition including by cross-reference to an IFRS, an SME shall look to the pervasive recognition and measurement principles set out in paragraphs 2.33-2.43.

Accrual basis

2.33 An entity shall prepare its financial statements, except for cash flow information, using the **ACCRUAL BASIS** of accounting. On the accrual basis, items are recognised as assets, liabilities, equity, income or expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements.

Recognition in financial statements

Assets

2.34 An entity shall recognise an asset in the balance sheet when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably. An asset is not recognised in the balance sheet when expenditure has been incurred for which it is considered improbable that economic benefits will flow to the entity beyond the current

accounting period. Instead such a transaction results in the recognition of an expense in the income statement.

Liabilities

2.35 An entity shall recognise a liability in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably.

Income

2.36 The recognition of income results directly from the recognition of assets and liabilities. An entity shall recognise income in the income statement when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably.

Expenses

2.37 The recognition of expenses results directly from the recognition and measurement of assets and liabilities. An entity shall recognise expenses in the income statement when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Profit or loss

2.38 Profit or loss is the arithmetical difference between income and expenses. It is not a separate element of financial statements, and a separate recognition principle is not needed for it.

2.39 The application of the notion commonly referred to as the 'matching concept' in measuring profit or loss does not allow the recognition of items in the balance sheet that do not meet the definition of assets or liabilities.

Measurement at initial recognition

2.40 At initial recognition, an entity shall measure assets and liabilities at historical cost unless this IFRS requires initial measurement on another basis such as fair value.

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Subsequent measurement

Financial assets

2.41 After initial recognition, an entity generally measures **FINANCIAL ASSETS** and **FINANCIAL LIABILITIES** at fair value unless this IFRS requires or permits measurement on another basis such as cost or amortised cost.

Non-financial assets

2.42 Most non-financial assets that an entity initially recognised at historical cost are subsequently measured on other measurement bases. For example, an entity measures property, plant and equipment at the lower of depreciated historical cost and fair value less costs to sell, and measures inventories at the lower of historical cost and selling price less costs to complete and sell. Measurement of assets at those lower amounts is intended to ensure that an asset is not measured at an amount greater than the entity expects to recover from the sale or use of that asset.

2.43 For some non-financial assets that an entity initially recognised at historical cost, this IFRS permits or requires subsequent measurement at fair value. Examples include:

(a) investments in associates and joint ventures that an entity measures at fair value (see paragraphs 13.6 and 14.12 respectively);

(b) investment property that an entity measures at fair value (see paragraph 15.4);

(c) property, plant and equipment that an entity measures at revalued amount (see paragraph 16.13);

(d) intangible assets that an entity measures at revalued amount (see paragraph 17.23); and

(e) agricultural assets (**BIOLOGICAL ASSETS** and **AGRICULTURAL PRODUCE** at the point of harvest) that an entity measures at fair value less estimated point-of-sale disposal costs (see paragraph 35.1).

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Offsetting

2.44 An entity shall not offset assets and liabilities, or income and expenses, unless required or permitted by this IFRS.

(a) Measuring assets net of valuation allowances—for example, obsolescence allowances on inventories and doubtful debts allowances on receivables—is not offsetting.

(b) If an entity's normal operating activities do not include buying and selling non-current assets, including investments and operating assets, then the entity reports gains and losses on disposal of such assets by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses.

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SECTION 3 GENERAL STANDARDS OF FINANCIAL STATEMENT PRESENTATION

Fair presentation

3.1 Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in Section 2 *Concepts and Pervasive Principles*.

(a) The application of this IFRS by an SME, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation of the financial position, financial performance and cash flows of an SME.

(b) As explained in paragraph 1.3, the application of this IFRS by an entity with public accountability does not result in a fair presentation in accordance with this IFRS for SMEs.

The additional disclosures referred to in (a) are necessary when compliance with the specific requirements in this IFRSs is insufficient to enable users to understand the effect of particular transactions, other events and conditions on the entity's financial position and financial performance.

Compliance with the IFRS for SMEs

3.2 An entity whose financial statements comply with the IFRS for SMEs shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with the IFRS for SMEs unless they comply with all the requirements of this IFRS.

3.3 In the extremely rare circumstances in which management concludes that compliance with this IFRS would be so misleading that it would conflict with the objective of financial statements set out in Section 2, the entity shall depart from that requirement in the manner set out in paragraph 3.4 if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.

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3.4 When an entity departs from a requirement of this IFRS in accordance with paragraph 3.3, it shall disclose:

(a) that management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows;

(b) that it has complied with the IFRS for SMEs, except that it has departed from a particular requirement to achieve a fair presentation;

(c) the nature of the departure, including the treatment that the IFRS for SMEs would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in Section 2, and the treatment adopted; and

(d) for each period presented, the financial impact of the departure on each item in the financial statements that would have been reported in complying with the requirement.

3.5 When an entity has departed from a requirement of this IFRS in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in paragraph 3.4(c) and (d).

3.6 In the extremely rare circumstances in which management concludes that compliance with a requirement in this IFRS would be so misleading that it would conflict with the objective of financial statements set out in Section 2, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:

(a) the nature of the requirement in this IFRS, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in Section 2; and

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(b) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation.

Going concern

3.7 When preparing financial statements, the management of an SME shall make an assessment of the entity's ability to continue as a **GOING CONCERN**. An entity is a going concern unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

Frequency of reporting

3.8 An entity shall present a complete set of financial statements (including comparative information) at least annually. When the end of an entity's reporting period changes and the annual financial statements are presented for a period longer or shorter than one year, the entity shall disclose:

(a) that fact;

(b) the reason for using a longer or shorter period; and

(c) the fact that comparative amounts for the **INCOME STATEMENT**, **STATEMENT OF CHANGES IN EQUITY**, **STATEMENT OF INCOME AND RETAINED EARNINGS**, **CASH FLOW STATEMENT** and related **NOTES** are not entirely comparable.

Consistency of presentation

3.9 An entity shall retain the presentation and classification of items in the financial statements from one period to the next unless:

(a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another

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presentation or classification would be more appropriate having regard to the criteria for the selection and application of **ACCOUNTING POLICIES** in Section 10 *Accounting Policies, Estimates and Errors*; or

(b) this IFRS requires a change in presentation.

3.10 When the presentation or classification of items in the financial statements is changed, an entity shall reclassify comparative amounts unless the reclassification is **IMPRACTICABLE**. When comparative amounts are reclassified, an entity shall disclose:

(a) the nature of the reclassification;

(b) the amount of each item or class of items that is reclassified; and

(c) the reason for the reclassification.

3.11 When it is **IMPRACTICABLE** to reclassify comparative amounts, an entity shall disclose:

(a) the reason for not reclassifying the amounts; and

(b) the nature of the adjustments that would have been made if the amounts had been reclassified.

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Comparative information

3.12 Except when this IFRS permits or requires otherwise, an entity shall disclose comparative information in respect of the previous comparable period for all amounts reported in the financial statements (including the information on the face of the financial statements and in the notes). An entity shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

Materiality and aggregation

3.13 An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.

3.14 Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the

omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Complete set of financial statements

3.15 The financial statements of an entity shall include:

(a) a **BALANCE SHEET**;

(b) an income statement;

(c) a statement of changes in equity showing either:[1]

(i) all changes in equity; or

(ii) changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders;

(d) a cash flow statement; and

(e) notes, comprising a summary of significant accounting policies and other explanatory information.

3.16 If the only changes to the equity of an entity during the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period **ERRORS**, and changes in accounting policy, the entity may present a statement of income and retained earnings in place of the income statement and statement of changes in equity.

3.17 Because paragraph 3.12 requires comparative amounts in respect of the previous period for all amounts reported in the financial statements (whether on the face of the financial statements or in the notes), a complete set of financial statements means that an entity shall present, as a minimum, two of each of the required financial statements and related notes.

3.18 An entity shall present with equal prominence each financial statement in a complete set of financial statements.

3.19 An entity may use titles for the financial statements other than those used in this IFRS.

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[1] The IASB has published an Exposure Draft proposing to amend IAS 1 so that entities must present all income and expenses in one or two statements, separately from changes in equity arising from transactions with owners in their capacity as owners.

Identification of the financial statements

3.20 An entity shall clearly identify each of the financial statements and the notes and distinguish them from other information in the same document. In addition, an entity shall display the following information prominently, and repeat it when necessary for an understanding of the information presented:

(a) the name of the reporting entity and any change in its name since the end of the preceding reporting period;

(b) whether the financial statements cover the individual entity or a group of entities;

(c) the date of the end of the reporting period and the period covered by the financial statements;

(d) the presentation currency, as defined in Section 30 *Foreign Currency Translation*; and

(e) the level of rounding, if any, used in presenting amounts in the financial statements.

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SECTION 4 BALANCE SHEET

Purpose

4.1 The **BALANCE SHEET** presents an entity's **ASSETS**, **LIABILITIES** and **EQUITY** at a point in time.

Information to be presented on the face of the balance sheet

4.2 As a minimum, an entity shall include, on the face of the balance sheet, line items that present the following amounts:

(a) cash and **CASH EQUIVALENTS**;

(b) trade and other receivables;

(c) **FINANCIAL ASSETS** (excluding amounts shown under (a), (b) and (h));

(d) **INVENTORIES**;

(e) **PROPERTY, PLANT AND EQUIPMENT**;

(f) **INTANGIBLE ASSETS**;

(g) **BIOLOGICAL ASSETS**;

(h) investments accounted for using the equity method;

(i) the total of non-current assets classified as **HELD FOR SALE** and assets included in **DISPOSAL GROUPS** classified as held for sale ;

(j) trade and other payables;

(k) **FINANCIAL LIABILITIES** (excluding amounts shown under (k) and (l));

(l) liabilities and assets for **CURRENT TAX**;

(m) **DEFERRED TAX LIABILITIES** and **DEFERRED TAX ASSETS** (these shall always be classified as non-current);

(n) liabilities included in disposal groups classified as held for sale in accordance with Section 36 *Discontinued Operations and Assets Held for Sale*.

(o) **PROVISIONS**;

(p) **MINORITY INTEREST**, presented within equity separately from the parent shareholders' equity; and

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(q) issued capital and reserves attributable to equity holders of the parent.

4.3 An entity shall present additional line items, headings and subtotals on the face of the balance sheet when such presentation is relevant to an understanding of the entity's financial position.

4.4 This IFRS does not prescribe the order or format in which items are to be presented.

Current/non-current distinction

4.5 An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its balance sheet in accordance with paragraphs 4.6–4.9, except when a presentation based on liquidity provides information that is reliable and is more relevant. When that exception applies, all assets and liabilities shall be presented broadly in order of liquidity.

Current assets

4.6 An entity shall classify an asset as current when:

(a) it expects to realise the asset, or intends to sell or consume it, in the entity's normal operating cycle;

(b) it holds the asset primarily for the purpose of trading;

(c) it expects to realise the asset within twelve months after the end of the reporting period; or

(d) the asset is cash or a cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the end of the reporting period.

4.7 An entity shall classify all other assets as non-current. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

Current liabilities

4.8 An entity shall classify a liability as current when:

(a) it expects to settle the liability in the entity's normal operating cycle;

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(b) it holds the liability primarily for the purpose of trading;

(c) the liability is due to be settled within twelve months after the end of the reporting period; or

(d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

4.9 An entity shall classify all other liabilities as non-current.

Sequencing of items and format of items on the balance sheet

4.10 This IFRS does not prescribe the sequence or format in which items are to be presented. Paragraph 4.2 simply provides a list of items that are sufficiently different in nature or function to warrant separate presentation on the face of the balance sheet. In addition:

(a) line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position; and

(b) the descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position.

4.11 The judgement on whether additional items are presented separately is based on an assessment of:

(a) the nature and liquidity of assets;

(b) the function of assets within the entity; and

(c) the amounts, nature and timing of liabilities.

Information to be presented either on the face of the balance sheet or in the notes

4.12 An entity shall disclose, either on the face of the balance sheet or in the notes, the following further subclassifications of the line items presented:

(a) classes of items of property, plant and equipment in accordance with Section 16 *Property, Plant and Equipment*;

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(b) amounts receivable from trade customers, receivables from **RELATED PARTIES**, prepayments and other amounts;

(c) classes of inventories in accordance with Section 12 *Inventories*, such as merchandise, production supplies, materials, work in progress and finished goods;

(d) provisions for **EMPLOYEE BENEFITS** and other provisions; and

(e) classes of equity, such as paid-in capital, share premium and reserves.

4.13 An entity with share capital shall disclose the following, either on the face of the balance sheet or in the notes:

(a) for each class of share capital:

(i) the number of shares (or other measure of quantity) authorised;

(ii) the number of shares (or other measure of quantity) issued and fully paid, and issued but not fully paid;

(iii) par value per share, or that the shares have no par value;

(iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;

(v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;

(vi) shares in the entity held by the entity or by its subsidiaries or associates; and

(vii) shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts; and

(b) a description of the nature of each reserve within equity.

4.14 An entity without share capital, such as a partnership or trust, or an entity organised under a corporate form unique to its jurisdiction, shall disclose information equivalent to that required by paragraph 4.13(a), showing changes during the period in each category of equity interest, and the rights, preferences and restrictions attaching to each category of equity interest.

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SECTION 5 INCOME STATEMENT

Purpose

5.1 The **INCOME STATEMENT** presents the **INCOME** and **EXPENSES** of an entity for a period.

5.2 The income statement shall include all items of income and expense recognised in a period unless this IFRS requires otherwise. This IFRS provides different treatment for the following:

(a) the effects of corrections of errors and changes in accounting policies are presented as adjustments of prior periods rather than as part of profit or loss in the period in which they arise (see Section 10 *Accounting Policies, Estimates and Errors);* and

(b) revaluation surpluses (see Section 16 *Property, Plant and Equipment*), some **GAINS** and **LOSSES** arising on translating the financial statements of a foreign operation (see Section 30 *Foreign Currency Translation*) and some changes in fair values of hedging instruments (see Section 11 *Financial Assets and Financial Liabilities*) are reported directly in equity, rather than as part of profit or loss, when they arise.

Information to be presented on the face of the income statement

5.3 As a minimum, an entity shall include, on the face of the income statement, line items that present the following amounts for the period:

(a) **REVENUE**;

(b) finance costs;

(c) share of the profit or loss of investments in associates and joint ventures accounted for using the equity method;

(d) **TAX EXPENSE**;

(e) a single amount comprising the total of (i) the post-tax profit or loss of discontinued operations and (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and

(f) profit or loss.

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5.4 An entity shall disclose the following items on the face of the income statement as allocations of profit or loss for the period:

(a) profit or loss attributable to **MINORITY INTEREST**; and

(b) profit or loss attributable to equity holders of the parent.

5.5 An entity shall present additional line items, headings and subtotals on the face of the income statement when such presentation is relevant to an understanding of the entity's financial performance.

5.6 An entity shall not present any items of income and expense as 'extraordinary items', either on the face of the income statement or in the notes.

Information to be presented either on the face of the income statement or in the notes

5.7 An entity shall disclose the nature and amount of material components of income and expense separately. Such disclosures shall include:

(a) write-downs of inventories to selling price less costs to complete and sell, and the reversal of such write-downs;

(b) write-downs of **PROPERTY, PLANT AND EQUIPMENT** to fair value less costs to sell, and the reversal of such write-downs;

(c) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

(d) disposals of items of property, plant and equipment;

(e) disposals of investments;

(f) **DISCONTINUED OPERATIONS**;

(g) litigation settlements; and

(h) the reversal of other **PROVISIONS**.

Analysis of expenses

5.9 An entity shall present an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant.

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Analysis by nature of expense

(a) Under this method of classification, expenses are aggregated in the income statement according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and are not reallocated among various functions within the entity.

Analysis by function of expense

(b) Under this method of classification, expenses are classified according to their function as part of cost of sales or, for example, the costs of distribution or administrative activities. At a minimum, an entity discloses its cost of sales under this method separately from other expenses.

5.10 Entities are encouraged to present this analysis on the face of the income statement. The illustrative financial statements that accompany this IFRS include examples of both types of presentation.

5.11 Entities classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense.

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SECTION 6 STATEMENT OF CHANGES IN EQUITY AND STATEMENT OF INCOME AND RETAINED EARNINGS

Statement of changes in equity

Purpose

6.1 The **STATEMENT OF CHANGES IN EQUITY** presents an entity's profit or loss for a period, items of income and expense recognised directly in equity for the period, the effects of changes in accounting policy and corrections of errors recognised in the period, and (depending on the format of the statement of changes in equity chosen by the entity) the amounts of investments by, and dividends and other distributions to, equity holders during the period.

Information to be presented on the face of the statement of changes in equity

6.2 An entity shall present a statement of changes in equity showing on the face of the statement:

(a) profit or loss for the period;

(b) each item of income and expense for the period that, as required by this IFRS, is recognised directly in equity, and the total of these items;

(c) total income and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to equity holders of the parent and to minority interest; and

(d) for each component of equity, the effects of changes in accounting policies and corrections of errors recognised in accordance with Section 10 *Accounting Policies, Estimates and Errors*.

Information to be presented either on the face of the statement of changes in equity or in the notes

6.3 An entity shall also present, either on the face of the statement of changes in equity or in the notes:

(a) the amounts of investments by, and dividends and other distributions to, equity holders, showing separately issuances of shares, treasury share transactions, and dividends and other distributions to equity holders;

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(b) the balance of retained earnings (ie accumulated profit or loss) at the beginning of the period and at the end of the reporting period, and the changes during the period; and

(c) a reconciliation between the carrying amount of each class of contributed equity and each reserve at the beginning and the end of the period, separately disclosing each change.

Statement of income and retained earnings

Purpose

6.4 The **STATEMENT OF INCOME AND RETAINED EARNINGS** presents an entity's profit or loss and changes in retained earnings for a period. Paragraph 3.16 of this IFRS permits an entity to present a statement of income and retained earnings in place of the income statement and statement of changes in equity if the only changes to its equity during the reporting period arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy.

Information to be presented on the face of the statement of income and retained earnings

6.5 An entity shall present, on the face of the statement of income and retained earnings, the following items in addition to the information required by Section 5 *Income Statement*:

(a) retained earnings at the beginning of the reporting period;

(b) dividends declared and paid or payable during the period;

(c) restatements of retained earnings for corrections of prior period errors;

(d) restatements of retained earnings for changes in accounting policy; and

(e) retained earnings at the end of the reporting period.

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SECTION 7 CASH FLOW STATEMENT

Purpose

7.1 The **CASH FLOW STATEMENT** provides information about the historical changes in **CASH** and **CASH EQUIVALENTS** of an entity, showing separately changes during the period from operating, investing and financing activities.

7.2 Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Bank overdrafts are normally considered financing activities similar to borrowings; however, if they are repayable on demand and form an integral part of an entity's cash management, bank overdrafts are included as a component of cash and cash equivalents.

Content

7.3 The cash flow statement shall report **CASH FLOWS** for a period classified by **OPERATING ACTIVITIES, INVESTING ACTIVITIES** and **FINANCING ACTIVITIES**.

Operating activities

7.4 Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity. Therefore, they generally result from the transactions and other events that enter into the determination of profit or loss. Examples of cash flows from operating activities are:

(a) cash receipts from the sale of goods and the rendering of services;

(b) cash receipts from royalties, fees, commissions and other revenue;

(c) cash payments to suppliers for goods and services;

(d) cash payments to and on behalf of employees;

(e) cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities; and

(g) cash receipts and payments from investments, loans, and other contracts held for dealing or trading purposes (which are similar to inventory acquired specifically for resale).

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Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in the determination of profit or loss. However, the cash flows relating to such transactions are cash flows from investing activities.

Investing activities

7.5 Cash flows arising from investing activities represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Examples of cash flows arising from investing activities are:

(a) cash payments to acquire property, plant and equipment (including self-constructed property, plant and equipment), intangible assets (including capitalised development costs) and other long-term assets;

(b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;

(c) cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments classified as cash equivalents or held for dealing or trading purposes);

(d) cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments classified as cash equivalents or held for dealing or trading purposes);

(e) cash advances and loans made to other parties;

(f) cash receipts from the repayment of advances and loans made to other parties;

(g) cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and

(h) cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

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When a contract is accounted for as a hedge (see Section 11 *Financial Assets and Financial Liabilities)*, the cash flows of the contract are classified in the same manner as the cash flows of the item being hedged.

Financing activities

7.6 Examples of cash flows arising from financing activities are:

(a) cash proceeds from issuing shares or other equity instruments;

(b) cash payments to owners to acquire or redeem the entity's shares;

(c) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long-term borrowings;

(d) cash repayments of amounts borrowed; and

(e) cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

Reporting cash flows from operating activities

7.7 An entity shall report cash flows from operating activities using either:

(a) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or

(b) the indirect method, whereby profit or loss is adjusted for the effects of non-cash transactions, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

7.8 Under the indirect method, the net cash flow from operating activities is determined by adjusting profit or loss for the effects of:

(a) changes during the period in inventories and operating receivables and payables;

(b) non-cash items such as depreciation, provisions, deferred taxes, unrealised foreign currency gains and losses, undistributed profits of associates, and minority interests; and

(c) all other items for which the cash effects are investing or financing cash flows.

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Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses disclosed in the income statement and the changes during the period in inventories and operating receivables and payables.

7.9 An entity choosing to use the direct method shall apply the guidance in paragraphs 18–20 of IAS 7 *Cash Flow Statements*.

Reporting cash flows from investing and financing activities

7.10 An entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities. The aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units shall be presented separately and classified as operating activities.

Foreign currency cash flows

7.11 An entity shall record cash flows arising from transactions in a foreign currency in the entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

7.12 The entity shall translate cash flows of a foreign subsidiary at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.

7.13 Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, to reconcile cash and cash equivalents at the beginning and the end of the period, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency must be reported in the cash flow statement. Therefore, the entity shall remeasure cash and cash equivalents held during the period at end of period exchange rates. The entity shall present the resulting unrealised gain or loss separately from cash flows from operating, investing and financing activities.

Interest and dividends

7.14 An entity shall disclose separately cash flows from interest and dividends received and paid (interest paid includes amount capitalised under the

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accounting policy choice in Section 24 *Borrowing Costs*). The entity shall classify cash flows consistently from period to period as operating, investing or financing activities.

7.15 An entity may classify interest paid and interest and dividends received as operating cash flows because they are included in profit or loss. Alternatively, the entity may classify interest paid and interest and dividends received as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

7.16 An entity may classify dividends paid as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, the entity may classify dividends paid as a component of cash flows from operating activities because they are paid out of operating cash flows.

Taxes on income

7.17 An entity shall disclose separately cash flows arising from taxes on income and shall classify them as cash flows from operating activities unless they can be specifically identified with financing and investing activities. When tax cash flows are allocated over more than one class of activity, the entity shall disclose the total amount of taxes paid.

Non-cash transactions

7.18 Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a cash flow statement. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

7.19 Many investing and financing activities do not have a direct impact on current cash flows although they affect the capital and asset structure of an entity. The exclusion of non-cash transactions from the cash flow statement is consistent with the objective of a cash flow statement because these items do not involve cash flows in the current period. Examples of non-cash transactions are:

(a) the acquisition of assets either by assuming directly related liabilities or by means of a finance lease;

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(b) the acquisition of an entity by means of an equity issue; and

(c) the conversion of debt to equity.

Components of cash and cash equivalents

7.20 An entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts reported in the cash flow statement to the equivalent items reported in the balance sheet.

Other disclosures

7.21 An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the entity. Cash and cash equivalents held by an entity may not be available for use by the entity because of, among other reasons, foreign exchange controls or legal restrictions.

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SECTION 8 NOTES TO THE FINANCIAL STATEMENTS

Purpose

8.1 **NOTES** contain information in addition to that presented on the face of the financial statements. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements.

Structure

8.2 The notes shall:

(a) present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 8.5 and 8.6;

(b) disclose the information required by this IFRS that is not presented on the face of the financial statements; and

(c) provide additional information that is not presented on the face of the financial statements but is relevant to an understanding of them.

8.3 An entity shall, as far as practicable, present the notes in a systematic manner. An entity shall cross-reference each item on the face of the financial statements to any related information in the notes.

8.4 An entity normally presents the notes in the following order:

(a) a statement that the financial statements have been prepared in compliance with the IFRS for SMEs (see paragraph 3.2);

(b) a summary of significant accounting policies applied (see paragraph 8.5);

(c) supporting information for items presented on the face of the financial statements, in the order in which each statement and each line item is presented; and

(d) other disclosures, including:

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(i) contingent liabilities and contingent assets (see Section 20 *Provisions and Contingencies*) and unrecognised contractual commitments;

(ii) non-financial disclosures;

(iii) the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to equity holders during the period, and the related amount per share; and

(iv) the amount of any cumulative preference dividends not recognised.

Disclosure of accounting policies

8.5 An entity shall disclose in the summary of significant accounting policies:

(a) the measurement basis (or bases) used in preparing the financial statements;

(b) the accounting policy the entity has chosen whenever the entity has adopted an accounting policy for an event, a transaction or circumstances for which this IFRS allows an accounting policy choice; and

(c) the other accounting policies used that are relevant to an understanding of the financial statements.

Information about judgements

8.6 An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 8.7), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Information about key sources of estimation uncertainty

8.7 An entity shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a **MATERIAL**

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adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

(a) their nature; and

(b) their carrying amount as at the end of the reporting period.

Information about externally imposed capital requirements

8.8 If an entity is subject to externally imposed capital requirements, it shall disclose the nature of those requirements and how they are managed, including whether the requirements have been complied with.

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SECTION 9 CONSOLIDATED FINANCIAL STATEMENTS

Control

9.1 Except as permitted by paragraph 9.2, a **PARENT** entity that has one or more subsidiaries shall present **CONSOLIDATED FINANCIAL STATEMENTS** in which it consolidates its investments in subsidiaries in accordance with this IFRS. Consolidated financial statements shall include all subsidiaries of the parent.

9.2 A parent need not present consolidated financial statements if:

(a) the parent is itself a subsidiary; and

(b) its ultimate parent (or any intermediate parent) produces consolidated general purpose financial statements that comply with International Financial Reporting Standards or with this IFRS.

9.3 A **SUBSIDIARY** is an entity that is controlled by the parent. **CONTROL** is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. If an entity has created a special purpose entity (SPE) to accomplish a narrow and well-defined objective, the entity shall consolidate the SPE when the substance of the relationship indicates that the SPE is controlled by that entity.

9.4 Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity but it has:

(a) power over more than half of the voting rights by virtue of an agreement with other investors;

(b) power to govern the financial and operating policies of the entity under a statute or an agreement;

(c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or

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(d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

9.5 A subsidiary is not excluded from consolidation simply because the investor is a venture capital organisation or similar entity.

9.6 A subsidiary is not excluded from consolidation because its business activities are dissimilar from those of the other entities within the consolidation. Relevant information is provided by consolidating such subsidiaries and disclosing additional information in the consolidated financial statements about the different business activities of subsidiaries.

9.7 A subsidiary is not excluded from consolidation because it operates in a jurisdiction that imposes restrictions on transferring cash or other assets out of the jurisdiction.

Consolidation procedures

9.8 The consolidated financial statements present financial information about the group as that of a single economic entity. In preparing consolidated financial statements, an entity shall:

(a) combine the financial statements of the parent and its subsidiaries line by line by adding together like items of assets, liabilities, equity, income and expenses;

(b) eliminate the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary;

(c) measure **MINORITY INTERESTS** in the profit or loss of consolidated subsidiaries for the reporting period separately from the parent shareholders' interest; and

(d) measure minority interests in the net assets of consolidated subsidiaries are identified separately from the parent shareholders' equity in them. Minority interests in the net assets consist of:

(i) the amount of those minority interests at the date of the original combination; and

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(ii) the minority's share of changes in equity since the date of the combination.

Potential voting rights

9.9 When potential voting rights exist (such as voting rights that would result from exercise of share options or warrants or from conversion of convertible securities), the proportions of profit or loss and changes in equity allocated to the parent and minority interests are determined on the basis of existing ownership interests and do not reflect the possible exercise or conversion of potential voting rights.

Intragroup balances and transactions

9.10 Intragroup balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full. Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. Section 28 *Income Taxes* applies to temporary differences that arise from the elimination of profits and losses resulting from intragroup transactions.

Uniform reporting date

9.11 The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same reporting date unless it is **IMPRACTICABLE** to do so.

Uniform accounting policies

9.12 Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

Acquisition and disposal of subsidiaries

9.13 The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date. The income and expenses of a

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subsidiary are included in the consolidated financial statements until the date on which the parent ceases to control the subsidiary. The difference between the proceeds from the disposal of the subsidiary and its carrying amount as of the date of disposal, including the cumulative amount of any exchange differences that relate to the subsidiary recognised in equity in accordance with Section 31 *Foreign Currency Translation*, is recognised in the consolidated income statement as the gain or loss on the disposal of the subsidiary.

9.14 If an entity ceases to be a subsidiary but the investor (former parent) continues to hold some equity shares, those shares shall be accounted for as a **FINANCIAL ASSET** in accordance with Section 11 *Financial Assets and Financial Liabilities* from the date the entity ceases to be a subsidiary, provided that it does not become an **ASSOCIATE** or a **JOINTLY CONTROLLED ENTITY**. The carrying amount of the investment at the date that the entity ceases to be a subsidiary shall be regarded as the cost on initial measurement of a financial asset.

Minority interests in subsidiaries

9.15 Minority interest shall be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity, as required by paragraph 4.2(p).

9.16 Minority interest in the profit or loss of the group shall also be separately disclosed in the income statement, as required by paragraph 5.4.

9.17 Losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the subsidiary's equity. The excess, and any further losses applicable to the minority, are allocated against the majority interest except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.

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Separate financial statements

9.18 Paragraph 9.1 requires a parent to prepare consolidated financial statements when it has one or more subsidiaries. This IFRS does not require a parent to produce **SEPARATE FINANCIAL STATEMENTS** for the parent entity or for the individual subsidiaries in addition to the consolidated statements. When separate financial statements of a parent are prepared, the entity shall adopt a policy of accounting for all of its investments in subsidiaries, **JOINTLY CONTROLLED ENTITIES** and **ASSOCIATES** that are not classified as held for sale either:

(a) at cost, or

(b) at fair value through profit or loss.

9.19 When a parent, a venturer with an interest in a **JOINTLY CONTROLLED ENTITY** or an investor in an **ASSOCIATE** prepares separate financial statements, those separate financial statements shall disclose:

(a) the fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by law;

(b) a list of significant investments in subsidiaries, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held; and

(c) a description of the method used to account for the investments listed under (b);

and shall identify the consolidated financial statements to which they relate.

9.20 The financial statements of an entity that does not have a subsidiary, associate or venturer's interest in a jointly controlled entity are not separate financial statements.

Combined financial statements

9.21 **COMBINED FINANCIAL STATEMENTS** are a single set of financial statements of two or more entities controlled by a single investor. This IFRS does not require combined financial statements to be prepared. The controlling

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investor may elect to prepare combined financial statements because the affiliated entities have common objectives and economic interests and are managed jointly.

9.22 If an entity prepares combined financial statements and describes them as conforming to the IFRS for SMEs, those statements shall comply with all of the requirements of this IFRS. Intercompany transactions and balances shall be eliminated; profits or losses resulting from intercompany transactions that are recognised in assets such as inventory and fixed assets shall be eliminated; the financial statements of the entities included in the combined financial statements shall be prepared as of the same reporting date unless it is impracticable to do so; and uniform accounting policies shall be followed for like transactions and other events in similar circumstances. Disclosures shall include the fact that the financial statements are combined financial statements and the **RELATED PARTY** disclosures required by Section 33 *Related Party Disclosures*.

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SECTION 10 ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Selection and application of accounting policies

10.1 **ACCOUNTING POLICIES** are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

10.2 If this IFRS does not specifically address a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:

(a) **RELEVANT** to the economic decision-making needs of users; and

(b) **RELIABLE**, in that the financial statements:

(i) represent faithfully the financial position, financial performance and cash flows of the entity;

(ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;

(iii) are neutral, ie free from bias;

(iv) are prudent; and

(v) are complete in all material respects.

10.3 In making the judgement described in paragraph 10.2, management shall refer to, and consider the applicability of, the following sources in descending order:

(a) the requirements and guidance in this IFRS dealing with similar and related issues; and

(b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles in Section 2 *Concepts and Pervasive Principles*; and

(c) the requirements and guidance in full IFRSs and Interpretations of full IFRSs dealing with similar and related issues.

10.4 In making the judgement described in paragraph 10.2, management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other

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accounting literature and accepted industry practices, to the extent that these do not conflict with the sources in paragraph 10.3.

Consistency of accounting policies

10.5 An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless this IFRS specifically requires or permits categorisation of items for which different policies may be appropriate. If this IFRS requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.

Changes in accounting policies

10.6 An entity shall change an accounting policy only if the change:

(a) is required by changes to this IFRS; or

(b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

10.7 The following are not changes in accounting policies:

(a) the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and

(b) the application of a new accounting policy for transactions, other events or conditions that did not occur previously or were not material.

10.8 If this IFRS allows a choice of accounting treatment for a specified event, transaction or circumstances, and an entity changes its choice, that is a change in accounting policy. Similarly, a change of measurement basis is a change in accounting policy.

Applying changes in accounting policies

10.9 An entity shall account for changes in accounting policy as follows:

(a) an entity shall account for a change in accounting policy resulting from a change in the requirements of this IFRS in accordance with the transitional provisions, if any, specified in that amendment;

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(b) when this IFRS requires or permits an entity to follow the requirements of another IFRS, and the requirements of that other IFRS change, the entity shall account for that change in accounting policy in accordance with the transitional provisions, if any, specified in that IFRS; and

(c) an entity shall account for all other changes in accounting policy **RETROSPECTIVELY**.

Retrospective application

10.10 When a change in accounting policy is applied retrospectively in accordance with paragraph 10.9, the entity applies the new accounting policy to comparative information for prior periods as far back as is practicable, as if the new accounting policy had always been applied. When it is **IMPRACTICABLE** to determine the individual period effects of changing an accounting policy for one or more prior periods presented, the entity shall adjust the opening balance of each affected component of equity for the earliest prior period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of equity for that period.

Disclosure of a change in accounting policy

10.11 When initial application of this IFRS, or an amendment to this IFRS, has an effect on the current period or any prior period or might have an effect on future periods, an entity shall disclose:

(a) the nature of the change in accounting policy;

(b) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected; and

(c) the amount of the adjustment relating to periods before those presented, to the extent practicable; and

(d) an explanation if it is not practicable to determine the amounts to be disclosed in (b) or (c) above.

Financial statements of subsequent periods need not repeat these disclosures.

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10.12 When a voluntary change in accounting policy has an effect on the current period or any prior period, or might have an effect on future periods, an entity shall disclose:

(a) the nature of the change in accounting policy;

(b) the reasons why applying the new accounting policy provides reliable and more relevant information;

(c) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;

(d) the amount of the adjustment relating to periods before those presented, to the extent practicable; and

(e) an explanation if it is not practicable to determine the amounts to be disclosed in (c) or (d) above.

Financial statements of subsequent periods need not repeat these disclosures.

10.13 When an entity has not applied an amendment to this IFRS that has been issued but is not yet effective, the entity shall disclose:

(a) that fact; and

(b) information that is known or can reasonably be estimated that is relevant to assessing the possible effect that application of the amendment will have on the entity's financial statements in the period of initial application.

Changes in accounting estimates

10.14 A **CHANGE IN ACCOUNTING ESTIMATE** is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

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10.15 An entity shall recognise the effect of a change in an accounting estimate, other than a change to which paragraph 10.16 applies **PROSPECTIVELY** by including it in profit or loss in:

(a) the period of the change, if the change affects that period only; or

(b) the period of the change and future periods, if the change affects both.

10.16 To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, the entity shall recognise it by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

Disclosure of a change in estimate

10.17 An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.

10.18 If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact.

Corrections of prior period errors

10.19 Prior period **ERRORS** are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

(a) was available when financial statements for those periods were authorised for issue; and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

10.20 Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

10.21 To the extent practicable, an entity shall correct a prior period error retrospectively in the first set of financial statements authorised for issue after its discovery by:

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(a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or

(b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

10.22 When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and equity for the earliest period for which retrospective restatement is practicable (which may be the current period).

10. 23 When it is impracticable to restate any prior periods, the entity shall recognise the effect of the error in opening retained earnings of the current period.

Disclosure of prior period errors

10.24 An entity shall disclose the following about prior period errors:

(a) the nature of the prior period error;

(b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;

(c) the amount of the correction at the beginning of the earliest prior period presented; and

(d) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

Financial statements of subsequent periods need not repeat these disclosures.

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SECTION 11 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Accounting policy choice

11.1 An entity shall choose to apply either:

(a) the provisions of this section, or

(b) IAS 39 *Financial Instruments: Recognition and Measurement* in full to account for all of its financial instruments.

An entity that chooses to apply IAS 39 shall make the disclosures required by paragraphs 11.41–12.53 of this section. An entity's choice of (a) or (b) is an accounting policy choice. Paragraphs 10.5–10.12 of Section 10 *Accounting Policies, Estimates and Errors* contain requirements for determining when a change in accounting policy is appropriate, how such a change should be accounted for, and what information should be disclosed about the change in accounting policy.

Scope

11.2 A **FINANCIAL INSTRUMENT** is a contract that gives rise to a **FINANCIAL ASSET** of one entity and a **FINANCIAL LIABILITY** or equity instrument of another entity. Common examples include:

(a) cash;

(b) demand and fixed-term deposits;

(c) commercial paper and commercial bills;

(d) accounts, notes, and loans receivable and payable;

(e) bonds and similar debt instruments.);

(f) common and preferred shares and similar equity instruments.;

(g) asset backed securities such as collateralised mortgage obligations, repurchase agreements, and securitised packages of receivables; and

(h) options, rights, warrants, futures contracts, forward contracts, and interest rate swaps that can be settled in cash or by exchanging another financial instrument.

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11.3 This section applies to all financial instruments except the following:

(a) interests in subsidiaries (covered by Section 9 *Consolidated Financial Statements*), associates (covered by Section 13 *Investments in Associates*) and joint ventures (covered by Section 14 *Investments in Joint Ventures*);

(b) employers' rights and obligations under employee benefit plans (covered by Section 27 *Employee Benefits*);

(c) rights under insurance contracts unless the insurance contract could result in a loss to either party as a result of contractual terms that are unrelated to:

(i) changes in the insured risk,

(ii) changes in foreign exchange rates or

(iii) a default by one of the counterparties;

(d) financial instruments that meet the definition of an entity's own equity (covered by Sections 21 *Equity* and 25 *Share-based Payment*); and

(e) leases (covered by Section 19 *Leases*) unless the lease could result in a loss to the lessor or the lessee as a result of contractual terms that are unrelated to:

(i) changes in the price of the leased asset,

(ii) changes in foreign exchange rates or

(iii) a default by one of the counterparties.

11.4 Most contracts to buy or sell a non-financial item such as a commodity, inventory, property, plant, or equipment are excluded from this section because they not financial instruments. However, this section applies to all contracts that could result in a loss to the buyer or seller as a result of contractual terms that are unrelated to changes in the price of the non-financial item, changes in foreign exchange rates or a default by one of the counterparties.

11.5 In addition to the contracts described in paragraph 11.4, this section applies to contracts to buy or sell non-financial items if the contract can be settled net in

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cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the following exception: Contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements are not accounted for as financial instruments under this section.

Initial recognition of financial assets and liabilities

11.6 An entity shall recognise a financial asset or a financial liability only when the entity becomes a party to the contractual provisions of the instrument.

Measurement

11.7 At each reporting date, an entity shall measure the following financial instruments at cost or amortised cost less impairment, as indicated:

(a) an instrument (such as a receivable, payable, or loan) that meets the conditions of paragraph 11.9, and that the entity designates at initial recognition to be measured at amortised cost (using the **EFFECTIVE INTEREST METHOD**) less impairment. Appendix A to this section provides guidance on applying the effective interest method;

(b) a commitment to make or receive a loan that:

(i) cannot be settled net in cash,

(ii) when executed, is expected to meet the conditions for recognition at cost or amortised cost less impairment and

(iii) the entity designates at initial recognition to be measured at cost less impairment; and

(c) equity instruments that are not **PUBLICLY TRADED** and whose fair value cannot otherwise be measured reliably, and contracts linked to such instruments that, if exercised, will result in delivery of such instruments, which shall be measured at cost less impairment.

11.8 At each reporting date, an entity shall measure all financial instruments (other than those measured at cost or amortised cost less impairment in accordance with paragraph 11.7) at fair value, without any deduction for transaction costs

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it may incur on sale or other disposal, with changes in fair value recognised in profit or loss.

11.9 An entity may designate an instrument for measurement at amortised cost, in accordance with paragraph 11.7(a), only if it meets all of the following conditions:

(a) It has a specified maturity date or is due on demand and, at or before the specified maturity date, it requires repayment of all or substantially all of the amount of consideration received or paid when it was issued.

(b) Returns to the holder are (i) a fixed amount, (ii) a fixed rate of return over the life of the instrument, (iii) a variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate (such as LIBOR) or (iv) some combination of these fixed rate and variable rates (such as LIBOR plus 200 basis points). For fixed and variable rate interest returns, interest is calculated by multiplying the rate for the applicable period by the principal outstanding during the period.

(c) There is no contractual provision that could result in the holder losing the principal amount and any interest attributable to the current period or prior periods other than because of credit losses.

(d) Contractual provisions that permit the issuer to prepay the debt or permit the holder to put it back to the issuer before maturity are not contingent on future events. The instrument may require the party exercising an early settlement right to make a penalty payment as long as the penalty is a fixed amount, a specified percentage of the invested amount or principal amount outstanding at the date of exercise, or an amount based on a change in an interest rate that reduces the benefit that otherwise would be obtained by the party exercising the settlement right.

(e) There are no conditional returns or repayment provisions except for the variable rate return described in (b) and prepayment provisions described in (d).

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For the purpose of applying these conditions to the debt component of a **COMPOUND FINANCIAL INSTRUMENT**, an entity first separates the equity component as required by paragraph 21.7 of Section 21 *Equity*.

11.10 Examples of financial instruments that would be measured at, or could be designated to be measured at, cost or amortised cost less impairment are:

(a) normal trade accounts and notes receivable and payable and loans from banks or other third parties, because these typically satisfy the conditions in paragraph 11.9;

(b) investments in non-convertible debt instruments, because these typically satisfy the conditions in paragraph 11.9;

(c) a contract or right (option) to buy an equity instrument whose fair value cannot be reliably measured if the contract or right will result in the delivery of the equity instrument, because that equity instrument is measured at cost less impairment in accordance with paragraph 11.7(c);

(d) accounts payable in a foreign currency, because the contractual cash flows typically satisfy the conditions in paragraph 11.9. However, any change in the account payable because of a change in the exchange rate is recognised in profit or loss as required by paragraph 30.10 of Section 30 *Foreign Currency Translation* of ;

(e) loans to or from subsidiaries or associates that are due on demand, because they typically satisfy the conditions in paragraph 11.9; and

(f) a debt instrument that would become immediately receivable if the issuer defaults on an interest or principal payment (such a provision does not violate the conditions in paragraph 11.9).

11.11 Examples of financial instruments that are not measured at cost or amortised cost less impairment are as follows. They are measured at fair value through profit or loss (see paragraph 11.8):

(a) investments in equity instruments with published price quotations, because paragraph 11.7(c) allows the cost method only for equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably;

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(b) an interest rate swap that returns a cash flow that is positive or negative, or a forward commitment to purchase a commodity or financial instrument that is capable of being cash settled and that, on settlement, could have positive or negative cash flow, because such swaps and forwards do not meet the condition in paragraph 11.9(b);

(c) options and forward contracts, because returns to the holder are not fixed and the condition in paragraph 11.9(b) is not met;

(d) investments in convertible debt, because the return to the holder can vary with the price of the debt issuer's equity shares rather than just with market interest rates; and

(e) perpetual debt, because it does not have a maturity date.

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11.12 An entity shall not change its policy for the subsequent measurement of a financial asset or liability into or out of the fair value through profit or loss category while it is held or issued.

11.13 If a reliable measure of fair value is no longer available for an equity instrument measured at fair value through profit or loss, its fair value carrying amount at the date of the change becomes its new cost. The entity shall measure the instrument at this cost amount less impairment until a reliable measure of fair value becomes available.

Fair value

11.14 Paragraph 11.8 requires some financial instruments to be measured at fair value. The best evidence of fair value is a quoted price in an active market. If the market for a financial instrument is not active, an entity estimates fair value by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

11.15 The fair value of a financial liability with a demand feature (eg a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

11.16 An entity shall not include transaction costs in the initial measurement of financial assets and liabilities measured at fair value through profit or loss (see paragraph 11.9). If payment for the asset is deferred or is financed at a rate of interest that is not a market rate, the entity shall measure cost at the present value of the future payments discounted at a market rate of interest.

11.17 An entity shall look to the additional guidance on estimating the fair value of a financial asset or a financial liability that is provided in Appendix B to this section.

Impairment of financial instruments measured at cost or amortised cost

Recognition

11.18 At the end of each financial reporting period, an entity shall assess for impairment all financial assets that are measured at cost or amortised cost. If there is objective evidence of impairment, the entity shall recognise an **IMPAIRMENT LOSS** in profit or loss. Financial instruments measured at fair value through profit or loss are not specially assessed for impairment because the fair valuation process automatically recognises any impairment in profit or loss.

11.19 Objective evidence that a financial asset or group of assets is impaired includes observable data that come to the attention of the holder of the asset about the following loss events:

(a) significant financial difficulty of the issuer or obligor;

(b) a breach of contract, such as a default or delinquency in interest or principal payments;

(c) the creditor, for economic or legal reasons relating to the debtor's financial difficulty, granting to the debtor a concession that the creditor would not otherwise consider;

(d) it has become probable that the debtor will enter bankruptcy or other financial reorganisation;

(e) the disappearance of an active market for that financial asset because of the debtor's financial difficulties; or

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(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, such as adverse national or local economic conditions or adverse changes in industry conditions.

11.20 Other factors may also be evidence of impairment, including significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates.

11.21 Financial assets that are individually significant, and all equity instruments regardless of significance, shall be assessed individually for impairment. Other financial assets shall be assessed for impairment either individually or grouped on the basis of similar credit risk characteristics.

Measurement

11.22 The amount of the impairment loss shall be measured as follows:

(a) for an instrument measured at amortised cost less impairment under paragraph 11.7(a), the impairment loss is the difference between the asset's **CARRYING AMOUNT** and the present value of estimated cash flows discounted at the financial asset's original effective interest rate; and

(b) for equity instruments, loan commitments, and options measured at cost less impairment in accordance with paragraph 11.7(b) and (c), the impairment loss is the difference between the asset's carrying amount and the entity's best estimate of the asset's fair value.

Reversal

11.23 If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the entity shall reverse the previously recognised impairment loss either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset (net of any allowance account) that exceeds what the carrying amount would have been had the impairment not

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previously been recognised. The entity shall recognise the amount of the reversal in profit or loss.

Derecognition of a financial asset

11.24 An entity shall **DERECOGNISE** a financial asset only when:

(a) the contractual rights to the cash flows from the financial asset expire or are settled; or

(b) the entity transfers to another party all of the significant risks and rewards relating to the financial asset; or

(c) the entity, despite having retained some significant risks and rewards relating to the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity shall:

(i) derecognise the asset, and

(ii) recognise separately any rights and obligations created or retained in the transfer.

The carrying amount of the transferred asset shall be allocated between the rights or obligations retained and those transferred based on their relative fair values at the transfer date. Newly created rights and obligations shall be measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised in accordance with this paragraph shall be included in profit or loss in the period of the transfer.

11.25 If a transfer does not result in derecognition because the entity has retained significant risks and rewards of ownership of the transferred asset, the entity shall continue to recognise the transferred asset in its entirety and shall recognise a financial liability for the consideration received. The asset and liability shall not be offset in the balance sheet. In subsequent periods, the entity shall recognise any income on the transferred asset and any expense incurred on the financial liability.

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11.26 If a transferor provides non-cash collateral (such as debt or equity instruments) to the transferee, the accounting for the collateral by the transferor and the transferee depends on whether the transferee has the right to sell or repledge the collateral and on whether the transferor has defaulted. The transferor and transferee shall account for the collateral as follows:

(a) If the transferee has the right by contract or custom to sell or repledge the collateral, the transferor shall reclassify that asset in its balance sheet (eg as a loaned asset, pledged equity instruments or repurchase receivable) separately from other assets.

(b) If the transferee sells collateral pledged to it, it shall recognise the proceeds from the sale and a liability measured at fair value for its obligation to return the collateral.

(c) If the transferor defaults under the terms of the contract and is no longer entitled to redeem the collateral, it shall derecognise the collateral, and the transferee shall recognise the collateral as its asset initially measured at fair value or, if it has already sold the collateral, derecognise its obligation to return the collateral.

(d) Except as provided in (c), the transferor shall continue to carry the collateral as its asset, and the transferee shall not recognise the collateral as an asset.

Derecognition of a financial liability

11.27 An entity shall derecognise a financial liability (or a part of a financial liability) only when it is extinguished—ie when the obligation specified in the contract is discharged or cancelled or expires.

11.28 If an existing borrower and lender exchange debt instruments with substantially different terms, the entities shall account for the transaction as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, an entity shall account for a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) as an extinguishment of the original financial liability and the recognition of a new financial liability. The entity shall recognise in profit or loss any difference

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between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed.

Hedge accounting

11.29 An entity may designate a hedging relationship between a **HEDGING INSTRUMENT** and a **HEDGED ITEM** in such a way as to qualify for hedge accounting. If specified criteria are met, hedge accounting permits the gain or loss on the hedging instrument and on the hedged item to be recognised in profit or loss at the same time.

11.30 To qualify for hedge accounting specified in this IFRS, an entity shall comply with all of the following conditions:

(a) the entity designates and documents the hedging relationship so that the risk being hedged, the hedged item, and the hedging instrument are clearly identified and the risk in the hedged item is the risk being hedged with the hedging instrument;

(b) the hedged risk is one of the risks specified in paragraph 11.31; and

(c) the entity expects that the changes in the fair value or cash flows of the hedged item that are attributable to the hedged risk will be almost fully offset by changes in the fair value or cash flows of the hedging instrument (see paragraph 11.32).;

11.31 This IFRS permits hedge accounting only for:

(a) interest rate risk exposure in a debt instrument measured at amortised cost;

(b) the foreign exchange risk exposure in a firm commitment or a highly probable forecast transaction;

(c) the price risk exposure in a commodity that it holds or in a firm commitment or highly probable forecast transaction to purchase or sell a commodity that has a readily determinable market price; or

(d) the foreign exchange risk exposure in a net investment in a foreign operation.

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11.32 The expectation of 'almost fully offset' in paragraph 11.30(c) is met only if the hedging instrument has all of the following terms and conditions:

(a) it is an interest rate swap that meets the conditions in paragraph 11.33; a foreign currency swap or a foreign currency forward exchange contract that is indexed to the same foreign currency as the hedged item; or a forward or futures contract that is indexed to the same commodity as the commodity that is the hedged item;

(b) it involves a party external to the reporting entity (ie external to the group, segment or individual entity being reported on);

(c) its **NOTIONAL AMOUNT** is equal to the designated amount of the principal or notional amount of the hedged item;

(d) it has a specified maturity date not later than (i) the maturity of the financial instrument being hedged, (ii) the expected settlement of the commodity purchase commitment, or (iii) the occurrence of the highly probable forecast foreign currency or commodity transaction being hedged;

(e) it has no prepayment, early termination or extension features;

(f) the fair value of the hedging instrument is nil at the inception of the hedge;

(g) the hedging instrument does not have settlement or payment features that are contingent on future events unrelated to changes in the hedged interest rates, foreign exchange rates or commodity prices; and

(h) the hedging instrument does not have other conditions that may invalidate the expectation of 'almost fully offset' in paragraph 11.30(c).

11.33 If the hedging instrument is an interest rate swap:

(a) its fixed rate component is constant throughout the life of the swap;

(b) its variable rate component:

(i) for a variable interest rate risk exposure, is the same variable rate as the hedged asset or liability; or

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(ii) for a fixed interest rate risk exposure, is quoted in the marketplace and is based on the same index throughout the life of the swap; and

(c) it provides for net cash settlements and repricing dates that match the timing of the payment of interest and repricing dates of the hedged item.

Hedge of fixed interest rate risk or commodity price risk of a commodity held

11.34 If the conditions in paragraph 11.30 are met and the hedged risk is the exposure to a fixed interest rate risk of a debt instrument measured at amortised cost or the commodity price risk of a commodity that it holds, the entity shall:

(a) recognise the hedging instrument as an asset or liability and the change in the fair value of the hedging instrument in profit or loss; and

(b) recognise an amount equal to the change in the fair value of the hedging instrument as an adjustment to the carrying amount of the hedged asset or liability and in profit or loss.

11.35 If the hedged risk is the fixed interest rate risk of a debt instrument measured at amortised cost, the entity shall recognise the periodic net cash settlements on the hedging instrument in profit or loss in the period in which the net settlements accrue.

11.36 The entity shall discontinue the hedge accounting specified in paragraph 11.34 if:

(a) the hedging instrument expires or is sold or terminated (for this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the entity's documented hedging strategy);

(b) the hedge no longer meets the conditions for hedge accounting specified in paragraph 11.30; or

(c) the entity revokes the designation.

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11.37 If hedge accounting is discontinued and the hedged item is an asset or liability carried at amortised cost less impairment that has not been derecognised, any gains or losses previously recognised as adjustments to the carrying amount of the hedged item are amortised into profit or loss using the effective interest method over the remaining life of the hedged instrument.

Hedge of variable interest rate risk, foreign currency risk, commodity price risk in a firm commitment or highly probable forecast transaction, or net investment in a foreign operation

11.38 If the conditions in paragraph 11.30 are met and the hedged risk is the exposure to a variable interest rate of a debt instrument measured at amortised cost less impairment, the entity shall:

(a) recognise the change in the fair value of the hedging instrument directly in equity; and

(b) subsequently recognise the periodic net cash settlements in profit or loss in the periods in which the net settlements accrue.

11.39 If the conditions in paragraph 11.30 are met and the hedged risk is one of:

(a) the foreign currency exposure in a firm commitment or a highly probable forecast transaction,

(b) the commodity price risk exposure in a firm commitment or highly probable forecast transaction or

(c) the foreign exchange risk in a net investment in a foreign operation,

the entity shall recognise the change in the fair value of the hedging instrument directly in equity. The hedging relationship ends for (a) and (b) when the hedged transaction occurs and for (c) when the net investment in the foreign operation is sold. The hedging gain or loss recognised in equity shall be reclassified to profit or loss when the hedged item affects profit or loss (such as in the periods that interest income or interest expense is recognised).

11.40 The entity shall discontinue the hedge accounting specified in paragraph 11.38 or 11.39 if:

(a) the hedging instrument expires or is sold or terminated (for this purpose, the replacement or rollover of a hedging instrument into

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another hedging instrument is not an expiration or termination if such replacement or rollover is part of the entity's documented hedging strategy);

(b) the hedge no longer meets the criteria for hedge accounting in paragraph 11.30;

(c) in a hedge of a forecast transaction, the forecast transaction is no longer highly probable; or

(d) the entity revokes the designation.

If the forecast transaction is no longer expected to occur or if the hedged debt instrument measured at amortised cost less impairment is derecognised, any gain or loss on the hedging instrument that was recognised directly in equity shall be removed from equity and recognised in profit or loss.

Disclosure

Disclosure of accounting policies for financial instruments

11.41 In accordance with paragraph 8.5 of Section 8 *Notes to the Financial Statements*, an entity shall disclose, in the summary of significant accounting policies, the measurement basis (or bases) used for financial instruments and the other accounting policies used for financial instruments that are relevant to an understanding of the financial statements.

Balance sheet—categories of financial assets and financial liabilities

11.42 An entity shall disclose the carrying amounts of each of the following categories of financial assets and financial liabilities, in total and by each significant type of financial asset or financial liability within each category, either on the face of the balance sheet or in the notes:

(a) financial assets measured at fair value through profit or loss (paragraph 11.9);

(b) financial assets measured at amortised cost less impairment (paragraph 11.9(a));

(c) equity instruments measured at cost (paragraph 11.9(c));

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(d) forward commitments and options measured at cost less impairment (paragraph 11.9(b));

(e) financial liabilities measured at fair value through profit or loss (paragraph 11.8); and

(f) financial liabilities measured at amortised cost (paragraph 11.8(a)).

11.43 For all financial assets and financial liabilities measured at fair value, the entity shall disclose the basis for determining fair value, ie quoted market price in an active market or a valuation technique. When a valuation technique is used, the entity shall disclose the assumptions applied in determining fair values of each class of financial assets or financial liabilities. For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates.

11.44 If a reliable measure of fair value is no longer available for an equity instrument measured at fair value through profit or loss, the entity shall disclose that fact.

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Derecognition

11.45 If an entity has transferred financial assets to another party in a transaction that does not qualify for derecognition (see paragraphs 11.24–11.26), the entity shall disclose for each class of such financial assets:

(a) the nature of the assets;

(b) the nature of the risks and rewards of ownership to which the entity remains exposed;

(c) the carrying amounts of the assets and of any associated liabilities that the entity continues to recognise.

Collateral

11.46 When an entity has pledged financial assets as collateral for liabilities or contingent liabilities, it shall disclose:

(a) the carrying amount of the financial assets pledged as collateral; and

(b) the terms and conditions relating to its pledge.

Defaults and breaches on loans payable

11.47 For loans payable recognised at the reporting date, an entity shall disclose:

(a) details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable;

(b) the carrying amount of the loans payable in default at the reporting date; and

(c) whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.

11.48 If, during the period, there were breaches of loan agreement terms other than those described in paragraph 11.47, an entity shall disclose the same information as is required by paragraph 11.47 if those breaches permitted the lender to demand accelerated repayment (unless the breaches were remedied, or the terms of the loan were renegotiated, on or before the balance sheet date).

Income statement and equity—items of income, expense, gains or losses

11.49 An entity shall disclose the following items of income, expense, gains or losses either on the face of the financial statements or in the notes:

(a) net gains or net losses recognised on:

(i) financial assets measured at fair value through profit or loss;

(ii) financial liabilities measured at fair value through profit or loss;

(iii) financial assets measured at amortised cost less impairment; and

(iv) financial liabilities measured at amortised cost;

(b) total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not at fair value through profit or loss; and

(c) the amount of any impairment loss for each class of financial asset.

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Hedge accounting

11.50 An entity shall disclose the following separately for hedges of each of the four types of risks described in paragraph 11.31:

(a) a description of the hedge;

(b) a description of the financial instruments designated as hedging instruments and their fair values at the balance sheet date; and

(c) the nature of the risks being hedged, including a description of the hedged item.

11.51 For a hedge of fixed interest rate risk or commodity price risk of a commodity held (paragraphs 11.34–11.37) the entity shall disclose the amount of the change in fair value of the hedging instrument (which is also the change in fair value of the hedged item) recognised in profit or loss.

11.52 For a hedge of variable interest rate risk, foreign currency risk, commodity price risk in a firm commitment or highly probable forecast transaction, or a net investment in a foreign operation (paragraphs 11.38–11.40) the entity shall disclose:

(a) the periods when the cash flows are expected to occur and when they are expected to affect profit or loss;

(b) a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur;

(c) the amount that was recognised in equity during the period (paragraphs 11.38(a) and 11.39);

(d) the amount that was removed from equity and recognised in profit or loss for the period, showing the amount included in each line item in the income statement (paragraphs 11.38(b) and 11.39).

Risks relating to financial instruments measured at cost or amortised cost

11.53 For financial assets measured at amortised cost less impairment, the entity shall disclose the significant terms and conditions that may affect the amount, timing and certainty of future cash flows, including interest rate risk, foreign currency exchange rate risk and credit risk.

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Appendix A to Section 11
Effective interest rate

This Appendix provides guidance for applying the effective interest method in accordance with paragraph 11.7.

11A.1 In some cases, financial assets are acquired at a deep discount that reflects incurred credit losses. Entities include such incurred credit losses in the estimated cash flows when computing the effective interest rate.

11A.2 When applying the effective interest method, an entity generally amortises any fees, points paid or received, transaction costs and other premiums or discounts included in the calculation of the effective interest rate over the expected life of the instrument. However, a shorter period is used if this is the period to which the fees, points paid or received, transaction costs, premiums or discounts relate. This will be the case when the variable to which the fees, points paid or received, transaction costs, premiums or discounts relate is repriced to market rates before the expected maturity of the instrument. In such a case, the appropriate amortisation period is the period to the next such repricing date. For example, if a premium or discount on a floating rate instrument reflects interest that has accrued on the instrument since interest was last paid, or changes in market rates since the floating interest rate was reset to market rates, it will be amortised to the next date when the floating interest is reset to market rates. This is because the premium or discount relates to the period to the next interest reset date because, at that date, the variable to which the premium or discount relates (ie interest rates) is reset to market rates. If, however, the premium or discount results from a change in the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates, it is amortised over the expected life of the instrument.

11A.3 For floating rate financial assets and floating rate financial liabilities, periodic re estimation of cash flows to reflect movements in market rates of interest alters the effective interest rate. If a floating rate financial asset or floating rate financial liability is recognised initially at an amount equal to the principal receivable or payable on maturity, re estimating the future interest payments normally has no significant effect on the carrying amount of the asset or liability.

11A.4 If an entity revises its estimates of payments or receipts, the entity shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The entity recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustment is recognised as income or expense in profit or loss.

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Appendix B to Section 11
Fair Value Measurement Considerations

This Appendix provides guidance for applying the standards on fair value measurement in paragraphs 11.14–16.

11B.1 Underlying the definition of fair value is a presumption that an entity is a going concern without any intention or need to liquidate, to curtail materially the scale of its operations or to undertake a transaction on adverse terms. Fair value is not, therefore, the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale. However, fair value reflects the credit quality of the instrument.

Active market: quoted price

11B.2 A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. Fair value is defined in terms of a price agreed by a willing buyer and a willing seller in an arm's length transaction. The objective of determining fair value for a financial instrument that is traded in an active market is to arrive at the price at which a transaction would occur at the balance sheet date in that instrument (ie without modifying or repackaging the instrument) in the most advantageous active market to which the entity has immediate access. However, the entity adjusts the price in the more advantageous market to reflect any differences in counterparty credit risk between instruments traded in that market and the one being valued. The existence of published price quotations in an active market is the best evidence of fair value and when they exist they are used to measure the financial asset or financial liability.

11B.3 The appropriate quoted market price for an asset held or liability to be issued is usually the current bid price and, for an asset to be acquired or liability held, the asking price. When an entity has assets and liabilities with offsetting market risks, it may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. When current bid and asking prices are unavailable, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. If conditions have changed since the time of the transaction (eg a change in the risk-free interest rate following the most recent price quote for a corporate bond), the fair value reflects the change in conditions by reference to current prices or rates for similar financial instruments, as appropriate. Similarly, if the entity can demonstrate that the last transaction price is not fair value (eg because it reflected the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted. The fair value of a portfolio of financial instruments is the product of the number of units of the instrument and its quoted market price. If a published price quotation in an active market does not exist for a financial instrument in its entirety, but active markets exist for its component parts, fair value is determined on the basis of the relevant market prices for the component parts.

11B.4 If a rate (rather than a price) is quoted in an active market, the entity uses that market-quoted rate as an input into a valuation technique to determine fair value. If the market-quoted rate does not include credit risk or other factors that market participants would include in valuing the instrument, the entity adjusts for those factors.

No active market: valuation technique

11B.5 If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide

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reliable estimates of prices obtained in actual market transactions, the entity uses that technique.

11B.6 The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Fair value is estimated on the basis of the results of a valuation technique that makes maximum use of market inputs, and relies as little as possible on entity-specific inputs. A valuation technique would be expected to arrive at a realistic estimate of the fair value if (a) it reasonably reflects how the market could be expected to price the instrument and (b) the inputs to the valuation technique reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

11B.7 Therefore, a valuation technique (a) incorporates all factors that market participants would consider in setting a price and (b) is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (ie without modification or repackaging) or based on any available observable market data. An entity obtains market data consistently in the same market where the instrument was originated or purchased. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (ie the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (ie without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

11B.8 The subsequent measurement of the financial asset or financial liability and the subsequent recognition of gains and losses shall be consistent with the requirements of this IFRS. The application of paragraph 11B.7 may result in no gain or loss being recognised on the initial recognition of a financial asset or financial liability. In such a case, this section requires that a gain or loss shall be recognised after initial recognition only to the extent that it arises from a change in a factor (including time) that market participants would consider in setting a price.

11B.9 The initial acquisition or origination of a financial asset or incurrence of a financial liability is a market transaction that provides a foundation for estimating the fair value of the financial instrument. In particular, if the financial instrument is a debt instrument (such as a loan), its fair value can be determined by reference to the market conditions that existed at its acquisition or origination date and current market conditions or interest rates currently charged by the entity or by others for similar debt instruments (ie similar remaining maturity, cash flow pattern, currency, credit risk, collateral and interest basis). Alternatively, provided there is no change in the credit risk of the debtor and applicable credit spreads after the origination of the debt instrument, an estimate of the current market interest rate may be derived by using a benchmark interest rate reflecting a better credit quality than the underlying debt instrument, holding the credit spread constant, and adjusting for the change in the benchmark interest rate from the origination date. If conditions have changed since the most recent market transaction, the corresponding change in the fair value of the financial instrument being valued is determined by reference to current prices or rates for similar financial instruments, adjusted as appropriate, for any differences from the instrument being valued.

11B.10 The same information may not be available at each measurement date. For example, at the date that an entity makes a loan or acquires a debt instrument that is not actively traded, the entity has a transaction price that is also a market price. However, no new transaction information may be available at the next measurement date and, although the entity can determine the general level of market interest rates, it may not know what level of credit or other risk market participants would consider in pricing the instrument on that date. An entity may not have information from recent transactions to determine the appropriate credit spread over the basic interest rate to use in determining a discount rate for a present value computation. It would be reasonable to assume, in the absence of evidence to the contrary, that no changes have taken place in the spread that existed at the date the loan was made. However, the entity would be expected to make reasonable efforts to determine whether there is evidence that there has been a change in such factors. When evidence of a change exists, the entity would consider the effects of the change in determining the fair value of the financial instrument.

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11B.11 In applying discounted cash flow analysis, an entity uses one or more discount rates equal to the prevailing rates of return for financial instruments having substantially the same terms and characteristics, including the credit quality of the instrument, the remaining term over which the contractual interest rate is fixed, the remaining term to repayment of the principal and the currency in which payments are to be made. Short-term receivables and payables with no stated interest rate may be measured at the original invoice amount if the effect of discounting is immaterial.

No active market: equity instruments

11B.12 The fair value of investments in equity instruments that do not have a quoted market price in an active market and derivatives (options, forward and futures contracts, swaps, etc.)that are linked to and must be settled by delivery of such an unquoted equity instrument is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that instrument or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

11B.13 There are many situations in which the variability in the range of reasonable fair value estimates of investments in equity instruments that do not have a quoted market price and derivatives that are linked to and must be settled by delivery of such an unquoted equity instrument is likely not to be significant. Normally it is possible to estimate the fair value of a financial asset that an entity has acquired from an outside party. However, if the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, an entity is precluded from measuring the instrument at fair value.

Inputs to valuation techniques

11B.14 An appropriate technique for estimating the fair value of a particular financial instrument would incorporate observable market data about the market conditions and other factors that are likely to affect the instrument's fair value. The fair value of a financial instrument will be based on one or more of the following factors (and perhaps others).

(a) *The time value of money (ie interest at the basic or risk-free rate).* Basic interest rates can usually be derived from observable government bond prices and are often quoted in financial publications. These rates typically vary with the expected dates of the projected cash flows along a yield curve of interest rates for different time horizons. For practical reasons, an entity may use a well-accepted and readily observable general rate, such as LIBOR or a swap rate, as the benchmark rate. (Because a rate such as LIBOR is not the risk-free interest rate, the credit risk adjustment appropriate to the particular financial instrument is determined on the basis of its credit risk in relation to the credit risk in this benchmark rate.) In some countries, the central government's bonds may carry a significant credit risk and may not provide a stable benchmark basic interest rate for instruments denominated in that currency. Some entities in these countries may have a better credit standing and a lower borrowing rate than the central government. In such a case, basic interest rates may be more appropriately determined by reference to interest rates for the highest rated corporate bonds issued in the currency of that jurisdiction.

(b) *Credit risk.* The effect on fair value of credit risk (ie the premium over the basic interest rate for credit risk) may be derived from observable market prices for traded instruments of different credit quality or from observable interest rates charged by lenders for loans of various credit ratings.

(c) *Foreign currency exchange prices.* Active currency exchange markets exist for most major currencies, and prices are quoted daily in financial publications.

(d) *Commodity prices.* There are observable market prices for many commodities.

(e) *Equity prices.* Prices (and indexes of prices) of traded equity instruments are readily observable in some markets. Present value based techniques may be used to estimate the current market price of equity instruments for which there are no observable prices.

(f) *Volatility (ie magnitude of future changes in price of the financial instrument or other item).* Measures of the volatility of actively traded items can normally be

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reasonably estimated on the basis of historical market data or by using volatilities implied in current market prices.

(g) *Prepayment risk and surrender risk.* Expected prepayment patterns for financial assets and expected surrender patterns for financial liabilities can be estimated on the basis of historical data. (The fair value of a financial liability that can be surrendered by the counterparty cannot be less than the present value of the surrender amount.)

(h) *Servicing costs for a financial asset or a financial liability.* Costs of servicing can be estimated using comparisons with current fees charged by other market participants. If the costs of servicing a financial asset or financial liability are significant and other market participants would face comparable costs, the issuer would consider them in determining the fair value of that financial asset or financial liability. It is likely that the fair value at inception of a contractual right to future fees equals the origination costs paid for them, unless future fees and related costs are out of line with market comparables.

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SECTION 12 INVENTORIES

Scope

12.1 **INVENTORIES** are **ASSETS**:

(a) held for sale in the ordinary course of business;

(b) in the process of production for such sale; or

(c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

12.2 This section does not apply to the measurement of inventories held by:

(a) producers of agricultural and forest products, **AGRICULTURAL PRODUCE** after harvest, and minerals and mineral products, to the extent that they are measured at fair value less costs to sell through profit or loss; or

(b) commodity brokers and dealers who measure their inventories at fair value less costs to sell through profit or loss.

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Measurement of inventories

12.3 An entity shall measure inventories at the lower of cost and selling price less costs to complete and sell.

Cost of inventories

12.4 The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Costs of purchase

12.5 The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

12.6 An entity may purchase inventories on deferred settlement terms. When the arrangement effectively contains a financing element, that element, for example

a difference between the purchase price for normal credit terms and the amount paid, is recognised as interest expense over the period of the financing.

Costs of conversion

12.7 The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings and equipment, and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour.

Allocation of fixed production overheads

12.8 An entity shall allocate fixed production overheads to the costs of conversion based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognised as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.

Joint products and by-products

12.9 A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of conversion of each product are not separately identifiable, an entity shall

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allocate them between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Most by-products, by their nature, are immaterial. When this is the case, the entity shall measure them at selling price less costs to complete and sell and deduct this amount from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost.

Other costs included in inventories

12.10 An entity shall include other costs in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example, it may be appropriate to include non-production overheads or the costs of designing products for specific customers in the cost of inventories. If an entity chooses to capitalise borrowing costs as provided by paragraph 24.2(b), IAS 23 *Borrowing Costs* identifies limited circumstances when borrowing costs are included in the cost of inventories.

1201A Paragraph 11.34 of Section 11 *Financial Assets and Financial Liabilities* provides that, in some circumstances, the change in the fair value of the hedging instrument in a hedge of fixed interest rate risk or commodity price risk of a commodity held adjusts the carrying amount of the commodity.

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Costs excluded from inventories

12.11 Examples of costs excluded from the cost of inventories and recognised as expenses in the period in which they are incurred are:

(a) abnormal amounts of wasted materials, labour or other production costs;

(b) storage costs, unless those costs are necessary in the production process before a further production stage;

(c) administrative overheads that do not contribute to bringing inventories to their present location and condition; and

(d) selling costs.

Cost of inventories of a service provider

12.12 To the extent that service providers have inventories, they measure them at the costs of their production. These costs consist primarily of the labour and other costs of personnel directly engaged in providing the service, including supervisory personnel, and attributable overheads. Labour and other costs relating to sales and general administrative personnel are not included but are recognised as expenses in the period in which they are incurred. The cost of inventories of a service provider does not include profit margins or non-attributable overheads that are often factored into prices charged by service providers.

Cost of agricultural produce harvested from biological assets

12.13 Under Section 35 *Specialised Industries*, inventories comprising agricultural produce that an entity has harvested from its biological assets are measured on initial recognition at their fair value less estimated point-of-sale costs at the point of harvest. This becomes the cost of the inventories at that date for application of this section.

Techniques for measuring cost, such as standard costing and retail method

12.14 An entity may use such techniques as the standard cost method or the retail method for measuring the cost of inventories if the results approximate cost. Standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions. The retail method measures cost by reducing the sales value of the inventory by the appropriate percentage gross margin.

Cost formulas

12.15 An entity shall assign the cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects by using specific identification of their individual costs.

12.16 An entity shall assign the cost of inventories, other than those dealt with in paragraph 12.15, by using the first-in, first-out (FIFO) or weighted average cost formula. An entity shall use the same cost formula for all inventories

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having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified. The last-in, first-out method is not permitted by this IFRS.

Impairment of inventories

12.17 Paragraphs 26.2–26.4 of this IFRS require an entity to assess at each reporting date whether any inventories are impaired, ie are not recoverable (due, for example, to damage, obsolescence or declining selling prices). If an item (or group of items) of inventory is impaired, those paragraphs require the entity to measure the inventory at its selling price less costs to complete and sell and to recognise an impairment loss.

Recognition as an expense

12.18 When inventories are sold, the entity shall recognise the carrying amount of those inventories as an expense in the period in which the related revenue is recognised.

12.19 Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant or equipment. Inventories allocated to another asset in this way are recognised as an expense during the useful life of that asset.

Disclosures

12.20 An entity shall disclose:

(a) the accounting policies adopted in measuring inventories, including the cost formula used;

(b) the total **CARRYING AMOUNT** of inventories and the carrying amount in classifications appropriate to the entity;

(c) the amount of inventories recognised as an expense during the period ('cost of goods sold');

(d) the amount of any write-down of inventories recognised as an expense in the period in accordance with paragraph 12.17;

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(e) the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expense in the period in accordance with paragraph 12.17;

(f) the circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 26.4; and

(g) the carrying amount of inventories pledged as security for liabilities.

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SECTION 13 INVESTMENTS IN ASSOCIATES

Associates defined

13.1 An **ASSOCIATE** is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

13.2 Significant influence is the power to participate in the financial and operating policy decisions of the associate but is not control or joint control over those policies.

(a) If an investor holds, directly or indirectly (eg through subsidiaries), 20 per cent or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case.

(b) Conversely, if the investor holds, directly or indirectly (eg through subsidiaries), less than 20 per cent of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated.

(c) A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.

Measurement after initial recognition—accounting policy election

13.3 An investor shall account for its investments in all associates using one of the following:

(a) the cost model in paragraph 13.4;

(b) the equity method in paragraph 13.5; or

(c) the fair value through profit or loss model in paragraph 13.6.

Cost model

13.4 An investor shall measure its investments in associates at cost less any accumulated impairment losses. The investor shall recognise income from the investment only to the extent that the investor receives distributions from accumulated profits of the associate arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of

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investment and are recognised as a reduction of the cost of the investment. The investor shall make disclosures required by this section. The investor shall recognise impairment in accordance with Section 26 *Impairment of Non-financial Assets*.

Equity method

13.5 An investor shall measure its investments in associates by the equity method using the procedures in IAS 28 *Investments in Associates.* The investor shall also make disclosures required by IAS 28.

Fair value through profit or loss model

13.6 An investor shall measure its investments in associates at fair value through profit or loss using the procedures in paragraphs 11.18–11.20 in Section 11 *Financial Assets and Financial Liabilities*. The investor shall make the disclosures required by that Section. An investor shall use the cost model for any investment in an associate whose fair value cannot be measured reliably.

Disclosures

13.7 An investor in an associate shall disclose:

(a) its accounting policy for investments in associates;

(b) the fair value of investments in associates for which there are published price quotations;

(c) summarised financial information of associates, including the aggregated amounts of assets, liabilities, revenues and profit or loss, along with the investor's percentage of ownership of the associates; and

(d) the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of associates to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances.

13.8 For investments in associates accounted for by the equity method, an investor shall disclose separately its share of the profit or loss of such associates, the carrying amount of those investments, and its share of any discontinued operations of such associates.

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Financial statement presentation

13.9 An investor shall classify investments in associates as non-current assets.

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SECTION 14 INVESTMENTS IN JOINT VENTURES

Joint ventures defined

14.1 **JOINT CONTROL** is the contractually agreed sharing of **CONTROL** over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

14.2 A **JOINT VENTURE** is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures can take the form of jointly controlled operations, jointly controlled assets, or jointly controlled entities.

Jointly controlled operations

14.3 The operation of some joint ventures involves the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations. The joint venture activities may be carried out by the venturer's employees alongside the venturer's similar activities. The joint venture agreement usually provides a means by which the revenue from the sale of the joint product and any expenses incurred in common are shared among the venturers.

14.4 In respect of its interests in jointly controlled operations, a venturer shall recognise in its financial statements:

(a) the assets that it controls and the liabilities that it incurs; and

(b) the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the joint venture.

Jointly controlled assets

14.5 Some joint ventures involve the joint control, and often the joint ownership, by the venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture.

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14.6 In respect of its interest in a jointly controlled asset, a venturer shall recognise in its financial statements:

(a) its share of the jointly controlled assets, classified according to the nature of the assets;

(b) any liabilities that it has incurred;

(c) its share of any liabilities incurred jointly with the other venturers in relation to the joint venture;

(d) any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and

(e) any expenses that it has incurred in respect of its interest in the joint venture.

Jointly controlled entities

14.7 A **JOINTLY CONTROLLED ENTITY** is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

Measurement after initial recognition—accounting policy election

14.8 A venturer shall account for its interest in all jointly controlled entities using one of the following:

(a) the cost model in paragraph 14.9;

(b) the equity method in paragraph 14.10;

(c) proportionate consolidation described in paragraph 14.11; or

(d) the fair value through profit or loss model in paragraph 14.12.

Cost model

14.9 A venturer shall measure its investments in jointly controlled entities at cost less any accumulated impairment losses. The investor shall recognise income from the investment only to the extent that the investor receives distributions from accumulated profits of the investee arising after the date of acquisition.

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Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment. The venturer shall make disclosures required by this section. The venturer shall recognise impairment in accordance with Section 26 *Impairment of Assets*.

Equity method

14.10 A venturer shall measure its investments in jointly controlled entities by the equity method using the procedures in paragraphs 38–40 of IAS 31 *Interests in Joint Ventures,* which in turn reference IAS 28 *Investments in Associates.* The venturer shall also make the disclosures required by IAS 28.

Proportionate consolidation

14.11 A venturer shall measure its investments in jointly controlled entities by proportionate consolidation using the procedures in paragraphs 30–45 of IAS 31. The venturer shall also make the disclosures required by IAS 31.

Fair value through profit or loss model

14.12 A venturer shall measure its investments in jointly controlled entities at fair value through profit or loss using the procedures in paragraphs 11.18–11.20 in Section 11 *Financial Assets and Liabilities*. The venturer shall make the disclosures required by that Section. An investor shall use the cost model for any investment in an associate whose fair value cannot be measured reliably.

Transactions between a venturer and a joint venture

4.13 When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction. While the assets are retained by the joint venture, and provided the venturer has transferred the significant risks and rewards of ownership, the venturer shall recognise only that portion of the gain or loss that is attributable to the interests of the other venturers. The venturer shall recognise the full amount of any loss when the contribution or sale provides evidence of a reduction in the recoverable amount of current assets or an impairment loss.

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14.14 When a venturer purchases assets from a joint venture, the venturer shall not recognise its share of the profits of the joint venture from the transaction until it resells the assets to an independent party. A venturer shall recognise its share of the losses resulting from these transactions in the same way as profits except that losses shall be recognised immediately when they represent a reduction in the recoverable amount of current assets or an impairment loss.

If investor does not have joint control

14.15 An investor in a joint venture that does not have joint control shall account for that investment in accordance with Section 11 or, if it has significant influence in the joint venture, in accordance with Section 13 *Investments in Associates*.

Disclosure

14.16 An investor in a joint venture shall disclose the aggregate amount of the following **CONTINGENT LIABILITIES**, unless the probability of loss is remote, separately from the amount of other contingent liabilities:

(a) any contingent liabilities that the investor has incurred in relation to its interests in joint ventures and its share in each of the contingent liabilities that have been incurred jointly with other venturers;

(b) its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable; and

(c) those contingent liabilities that arise because the investor is contingently liable for the liabilities of the other venturers of a joint venture.

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14.17 An investor in a joint venture shall also disclose:

(a) the aggregate amount of its commitments relating to joint ventures, including its share in the capital commitments that have been incurred jointly with other venturers, as well as its share of the capital commitments of the joint ventures themselves;

(b) a listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities; and

(c) the method it uses to recognise its interests in jointly controlled entities.

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SECTION 15 INVESTMENT PROPERTY

Recognition

15.1 **INVESTMENT PROPERTY** is property (land or a building—or part of a building—or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for:

(a) use in the production or supply of goods or services or for administrative purposes; or

(b) sale in the ordinary course of business.

Measurement at initial recognition

15.2 An entity shall measure investment property at its cost at initial recognition. Transaction costs shall be included in the initial measurement.

Measurement after recognition—accounting policy election

15.3 An entity shall measure all of its investment property after initial recognition using either:

(a) the fair value model in paragraph 15.4; or

(b) the cost model in paragraph 15.5.

Fair value model

15.4 An entity that elects to use the fair value model shall apply IAS 40 *Investment Property* (see especially paragraphs 33–55) and shall make the disclosures required by paragraphs 76–78 of that Standard.

Cost model

15.5 An entity that elects to use the cost model shall account for all of its investment property as property, plant and equipment in accordance with the requirements for the cost model in Section 16 *Property, Plant and Equipment*. The entity shall make the disclosures required by that section.

Transfers

15.6 An entity shall transfer a property to, or from, investment property only when the property first meets, or ceases to meet, the definition of investment property.

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SECTION 16 PROPERTY, PLANT AND EQUIPMENT

Recognition

16.1 **PROPERTY, PLANT AND EQUIPMENT** are tangible assets that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and

(b) are expected to be used during more than one period.

16.2 Spare parts and servicing equipment are usually carried as inventory and recognised in profit or loss as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

16.3 Parts of some items of property, plant and equipment may require replacement at regular intervals. An entity shall add to the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefits to the entity. The carrying amount of those parts that are replaced is **DERECOGNISED** in accordance with the derecognition provisions of this IFRS (see paragraphs 16.23–16.26).

16.4 A condition of continuing to operate an item of property, plant and equipment (for example, a bus) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised. This is done regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

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16.5 Land and buildings are separable assets, and an entity shall account for them separately, even when they are acquired together.

Measurement at recognition

16.6 An entity shall measure an item of property, plant and equipment at initial recognition at its cost.

Elements of cost

16.7. The cost of an item of property, plant and equipment comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

(b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. These can include the costs of site preparation, initial delivery and handling, installation and assembly, and testing of functionality.

(c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

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16.8 The following costs are not costs of an item of property, plant and equipment, and an entity shall recognise them as an expense when they are incurred:

(a) costs of opening a new facility;

(b) costs of introducing a new product or service (including costs of advertising and promotional activities);

(c) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and

(d) administration and other general overhead costs.

16.9 The income and related expenses of incidental operations during construction or development of an item of property, plant and equipment are recognised in

profit or loss if those operations are not necessary to bring the item to its intended location and operating condition.

Measurement of cost

16.10 The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the cost is the present value of all future payments. If property, plant or equipment is acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, the cost of the acquired asset is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. In this case, the asset's cost is measured at the carrying amount of the asset given up.

Measurement after initial recognition—accounting policy election

16.11 An entity shall account for all items in the same class of property, plant and equipment after initial recognition using either:

(a) the cost model in paragraph 16.30; or

(b) the revaluation model in paragraph 16.13.

Cost model

16.12 An entity shall measure an item of property, plant and equipment at cost less any accumulated depreciation and any accumulated impairment losses.

Revaluation model

16.13 An entity that elects to use the revaluation model for a class of items of property, plant and equipment shall apply paragraphs 31–42 of IAS 16 and shall make the disclosures required by paragraph 77 of IAS 16.

Depreciation

16.14 An entity shall allocate the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciate separately each such part. However, if a significant part of an item of property, plant and equipment has a **USEFUL LIFE** and a **DEPRECIATION** method that are the same as the useful life and the depreciation method of another significant part of

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that same item, those parts may be grouped in determining the depreciation charge.

16.15 The depreciation charge for each period shall be recognised in profit or loss unless it is included in the carrying amount of another asset. For example, the depreciation of manufacturing property, plant and equipment is included in the costs of inventories (see Section 12 *Inventories*).

Depreciable amount and depreciation period

16.16 An entity shall allocate the **DEPRECIABLE AMOUNT** of an asset on a systematic basis over its useful life.

16.17 An entity shall review the **RESIDUAL VALUE** and the **USEFUL LIFE** of an asset at least at each financial year-end and, if expectations differ from previous estimates, amend the residual value or useful life. The entity shall account for the change in residual value or useful life as a change in an accounting estimate in accordance with Section 10 *Accounting Policies, Estimates and Errors*.

16.19 Depreciation of an asset begins when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or included in a disposal group that is classified as held for sale in accordance with paragraphs 36.5–36.8 and the date that the asset is derecognised. Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

16.19 An entity shall consider all the following factors in determining the useful life of an asset:

(a) the expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.

(b) expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the

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repair and maintenance programme, and the care and maintenance of the asset while idle.

(c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset.

(d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.

Depreciation method

16.20 An entity shall select a depreciation method that reflects the pattern in which it expects to consume the asset's future economic benefits. The possible depreciation methods include the straight-line method, the diminishing balance method and the units of production method.

16.21 An entity shall review the depreciation method at least at each financial year-end. If there has been a significant change in the pattern in which the entity expects to consume the asset's future economic benefits, the entity shall change the method to reflect the new pattern. The entity shall account for the change as a change in an accounting estimate in accordance with Section 10 *Accounting Policies, Estimates and Errors*.

Impairment

16.22 At the end of each financial reporting period, an entity shall apply the provisions of Section 26 *Impairment of Assets* to determine whether an item or group of items of property, plant and equipment is impaired and, if so, how to recognise and measure the impairment loss.

Compensation for impairment

16.23 An entity shall include in profit or loss compensation from third parties for items of property, plant and equipment that were impaired, lost or given up only when the compensation becomes receivable.

Derecognition

16.24 An entity shall derecognise an item of property, plant and equipment:

(a) on disposal; or

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(b) when no future economic benefits are expected from its use or disposal.

16.25 An entity shall recognise the gain or loss on the derecognition of an item of property, plant and equipment in profit or loss when the item is derecognised (unless Section 19 *Leases* requires otherwise on a sale and leaseback). The entity shall not classify such gains as revenue.

16.26 In determining the date of disposal of an item, an entity shall apply the criteria in Section 22 *Revenue* for recognising revenue from the sale of goods. Section 19 applies to disposal by a sale and leaseback.

16.27 An entity shall determine the gain or loss arising from the derecognition of an item of property, plant and equipment as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Property, plant, and equipment held for sale

16.28 Paragraphs 36.5–36.8 provide guidance on accounting for property, plant and equipment and other non-current assets that are held for sale.

Disclosure

16.29 An entity shall disclose, for each class of property, plant and equipment:

(a) the measurement bases used for determining the gross carrying amount;

(b) the depreciation methods used;

(c) the useful lives or the depreciation rates used;

(d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and

(e) a reconciliation of the carrying amount at the beginning and end of the period showing:

(i) additions;

(ii) disposals, including assets classified as held for sale or included in a disposal group classified as held for sale;

(iii) acquisitions through business combinations;

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(iv) impairment losses recognised or reversed in profit or loss in accordance with Section 26;

(v) depreciation;

(vi) the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity (see Section 30 *Foreign Currency Translation*); and

(vii) other changes.

16.30 The entity shall also disclose:

(a) the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;

(b) the amount of contractual commitments for the acquisition of property, plant and equipment; and

(c) if it is not disclosed separately on the face of the income statement, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss.

16.31 An entity shall present property, plant and equipment that is held for sale separately from other assets in the balance sheet. The entity shall present any liabilities related to property, plant and equipment that is held for sale separately from other liabilities in the balance sheet.

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SECTION 17 INTANGIBLE ASSETS OTHER THAN GOODWILL

17.1 An **INTANGIBLE ASSET** is an identifiable non-monetary asset without physical substance. Such an asset is identifiable when:

(a) it is separable, ie capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or

(b) it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Recognition

General principle for recognising intangible assets

17.2 An entity shall apply the recognition criteria in paragraph 2.24 of Section 2 *Concepts and Pervasive Principles* in determining whether to recognise an intangible asset. Therefore, the entity shall recognise an intangible asset as an asset only if:

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

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

17.3 An entity shall assess the probability of expected future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

17.4 An entity uses judgement to assess the degree of certainty attached to the flow of future economic benefits that are attributable to the use of the asset on the basis of the evidence available at the time of initial recognition, giving greater weight to external evidence.

17.5 The probability recognition criterion in paragraph 17.2(a) is always considered satisfied for intangible assets that are separately acquired

Acquisition as part of a business combination

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17.6 An intangible asset acquired in **BUSINESS COMBINATIONS** is normally recognised as an asset because its fair value can be measured with sufficient reliability. However, an intangible asset acquired in a business combination is not recognised when it arises from legal or other contractual rights and its fair value cannot be measured reliably because the asset either

(a) is not separable from **GOODWILL**; or

(b) is separable from goodwill but there is no history or evidence of exchange transactions for the same or similar assets, and otherwise estimating fair value would be dependent on immeasurable variables.

Initial measurement

17.7 An entity shall measure an intangible asset initially at cost.

Separate acquisition

17.8 The cost of a separately acquired intangible asset comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

(b) any directly attributable cost of preparing the asset for its intended use.

Acquisition as part of a business combination

17.9 If an intangible asset is acquired in a business combination, the cost of that intangible asset is its **FAIR VALUE** at the acquisition date.

Acquisition by way of a government grant

17.10 Section 23 *Government Grants* prescribes the accounting for intangible assets acquired by way of a government grant.

Exchanges of assets

17.11 One or more intangible assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. An entity shall measure the cost of such an intangible asset at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable.

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17.12 If an entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

17.13 If the entity is not able to determine reliably the fair value of the acquired asset, its cost is measured at the carrying amount of the asset given up.

Internally generated intangible assets other than goodwill—accounting policy election

17.14 The creation of internally generated intangible assets other than goodwill involves a **RESEARCH** phase and a **DEVELOPMENT** phase. An entity shall choose either the expense model in paragraph 17.15 or the capitalisation model in paragraph 17.16 as its **ACCOUNTING POLICY** for costs incurred in research and development activities.

Expense model

17.15 An entity shall recognise all costs incurred in research and development activities as an expense when incurred.

Capitalisation model

17.16 Under the capitalisation model, all costs incurred in research activities are recognised as an expense when incurred. Costs incurred in development activities are also recognised as expense except for those development costs incurred after specified criteria are met, which are recognised as the cost of an intangible asset. An entity that chooses the capitalisation model as its accounting policy shall follow the requirements of paragraphs 51–67 of IAS 38 *Intangible Assets*.

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Recognition as an expense

17.17 An entity shall recognise expenditure on an intangible item as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria in paragraphs 17.6–17.16.

17.18 An entity shall recognise expenditures on the following items as an expense and shall not recognise such expenditures as intangible assets:

(a) internally generated brands, mastheads, publishing titles, customer lists and items similar in substance;

(b) expenditure on start up activities (ie start-up costs), unless this expenditure is included in the cost of an item of property, plant and equipment in accordance with Section 16 *Property, Plant and Equipment*. Start-up costs may consist of establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or business (ie pre opening costs) or expenditures for starting new operations or launching new products or processes (ie pre-operating costs);

(c) expenditure on training activities;

(d) expenditure on advertising and promotional activities; and

(e) expenditure on relocating or reorganising part or all of an entity.

17.19 Paragraph 17.18 does not preclude recognising a prepayment as an asset when payment for the delivery of goods or services has been made in advance of the delivery of goods or the rendering of services.

Past expenses not to be recognised as an asset

17.20 Expenditure on an intangible item that was initially recognised as an expense shall not be recognised at a later date as part of the cost of an intangible asset.

Measurement after recognition—accounting policy election

17.21 An entity shall account for each class of intangible assets after initial recognition using either:

(a) the cost model in paragraph 17.22; or

(b) the revaluation model in paragraph 17.23.

Cost model

17.22 An entity shall measure an intangible asset at cost less any accumulated amortisation and any accumulated impairment losses. The requirements for amortisation are set out in this section. The requirements for recognition of impairment are set out in Section 26 *Impairment of Assets*

Revaluation model

17.23 An entity that uses the revaluation model for a class of intangible assets after initial recognition shall apply paragraphs 75–87 of IAS 38.

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Useful life

17.24 An entity shall assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An entity shall regard an intangible asset as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

17.25 The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.

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Intangible assets with finite useful lives

Amortisation period and amortisation method

17.26 An entity shall allocate the depreciable amount of an intangible asset with a finite useful life on a systematic basis over its useful life. Amortisation shall begin when the asset is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with Section 16 and the date that the asset is derecognised. The entity shall choose an amortisation method that reflects the pattern in which it expects to consume the asset's future economic benefits. If the entity cannot determine that pattern reliably, it shall use the straight-line method. The entity shall recognise the amortisation charge for each period in profit or loss unless this IFRS permits or requires it to be included in the carrying amount of another asset.

Residual value

17.27 An entity shall assume that the residual value of an intangible asset with a finite useful life is zero unless:

(a) there is a commitment by a third party to purchase the asset at the end of its useful life; or

(b) there is an active market for the asset and:

(i) residual value can be determined by reference to that market; and

(ii) it is probable that such a market will exist at the end of the asset's useful life.

Review of amortisation period and amortisation method

17.28 An entity shall review the amortisation period and the amortisation method for an intangible asset with a finite useful life at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the entity shall change the amortisation period accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the entity shall change the amortisation method to reflect the changed pattern. The entity shall account for such changes as changes in accounting estimates in accordance with Section 10 *Accounting Policies, Estimates and Errors*.

Intangible assets with indefinite useful lives

No amortisation

17.29 An entity shall not amortise an intangible asset with an indefinite useful life.

Recoverability of the carrying amount—impairment losses

17.30 To determine whether an intangible asset is impaired, an entity shall apply Section 26 *Impairment of Assets*. That section explains when and how an entity reviews the carrying amount of its assets, how it determines the fair value less costs to sell of an asset and when it recognises or reverses an impairment loss.

Retirements and disposals

17.31 An entity shall derecognise an intangible asset, and shall recognise a gain or loss in profit or loss:

(a) on disposal; or

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(b) when no future economic benefits are expected from its use or disposal.

Disclosures

17.32 An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

(a) whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortisation rates used;

(b) the amortisation methods used for intangible assets with finite useful lives;

(c) the gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;

(d) the line item(s) of the income statement in which any amortisation of intangible assets is included;

(e) a reconciliation of the carrying amount at the beginning and end of the period showing separately additions, disposals, amortisations, impairment losses, and other changes.

17.33 An entity shall also disclose:

(a) for an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving these reasons, the entity shall describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life.

(b) a description, the carrying amount and remaining amortisation period of any individual intangible asset that is **MATERIAL** to the entity's financial statements.

(c) for intangible assets acquired by way of a government grant and initially recognised at fair value (see paragraph 17.10):

(i) the fair value initially recognised for these assets;

(ii) their carrying amount; and

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(iii) whether they are measured after recognition using the cost model or the revaluation model.

(d) the existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities.

(e) the amount of contractual commitments for the acquisition of intangible assets.

17.34 An entity that uses the revaluation model (see paragraph 17.23) shall make the disclosures required by paragraph 124 of IAS 38 *Intangible Assets*.

17.35 An entity shall disclose the aggregate amount of research and development expenditure recognised as an expense during the period.

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SECTION 18 BUSINESS COMBINATIONS AND GOODWILL

18.1 A **BUSINESS COMBINATION** is the bringing together of separate entities or businesses into one reporting entity. The result of nearly all business combinations is that one entity, the acquirer, obtains control of one or more other businesses, the acquiree. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

18.2 A business combination may be structured in a variety of ways for legal, taxation or other reasons. It may involve the purchase by an entity of the equity of another entity, the purchase of all the net assets of another entity, the assumption of the liabilities of another entity, or the purchase of some of the net assets of another entity that together form one or more **BUSINESSES**.

18.3 A business combination may be effected by the issue of equity instruments, the transfer of cash, cash equivalents or other assets, or a combination thereof. The transaction may be between the shareholders of the combining entities or between one entity and the shareholders of another entity. It may involve the establishment of a new entity to control the combining entities or net assets transferred, or the restructuring of one or more of the combining entities.

18.4 This section specifies the accounting for all business combinations except combinations of entities or businesses under common **CONTROL.** Common control means that all of the combining entities or businesses are ultimately controlled by the same party both before and after the business combination, and that control is not transitory.

Accounting

18.5 All business combinations shall be accounted for by applying the purchase method.

18.6 Applying the purchase method involves the following steps:

(a) identifying an acquirer;

(b) measuring the cost of the business combination; and

(c) allocating, at the acquisition date, the cost of the business combination to the assets acquired and liabilities and contingent liabilities assumed.

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Identifying the acquirer

18.7 An acquirer shall be identified for all business combinations. The acquirer is the combining entity that obtains control of the other combining entities or businesses.

18.8 Control is the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities. Control of one entity by another is described in Section 8 *Consolidated Financial Statements*.

18.9 Although it may sometimes be difficult to identify an acquirer, there are usually indications that one exists. For example:

(a) if the fair value of one of the combining entities is significantly greater than that of the other combining entity, the entity with the greater fair value is likely to be the acquirer;

(b) if the business combination is effected through an exchange of voting ordinary equity instruments for cash or other assets, the entity giving up cash or other assets is likely to be the acquirer; and

(c) if the business combination results in the management of one of the combining entities being able to dominate the selection of the management team of the resulting combined entity, the entity whose management is able so to dominate is likely to be the acquirer.

Cost of a business combination

18.10 The acquirer shall measure the cost of a business combination as the aggregate of:

(a) the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree; plus

(b) any costs directly attributable to the business combination.

Adjustments to the cost of a business combination contingent on future events

18.11 When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the acquirer shall include the amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably.

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18.12 However, if the potential adjustment is not recognised at the acquisition date but subsequently becomes probable and can be measured reliably, the additional consideration shall be treated as an adjustment to the cost of the combination.

Allocating the cost of a business combination to the assets acquired and liabilities and contingent liabilities assumed

18.13 The acquirer shall, at the acquisition date, allocate the cost of a business combination by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria in paragraph 18.18 at their fair values at that date, except for non-current assets (or disposal groups) that are classified as held for sale, which shall be recognised at fair value less costs to sell. Any difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities so recognised shall be accounted for in accordance with paragraphs 18.20–18.22.

18.14 The acquirer shall recognise separately the acquiree's identifiable assets, liabilities and contingent liabilities at the acquisition date only if they satisfy the following criteria at that date:

(a) in the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably;

(b) in the case of a liability other than a contingent liability, it is probable that an outflow of resources will be required to settle the obligation, and its fair value can be measured reliably;

(c) in the case of an intangible asset or a contingent liability, its fair value can be measured reliably.

18.15 The acquirer's income statement shall incorporate the acquiree's profits and losses after the acquisition date by including the acquiree's income and expenses based on the cost of the business combination to the acquirer. For example, depreciation expense included after the acquisition date in the acquirer's income statement that relates to the acquiree's depreciable assets

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shall be based on the fair values of those depreciable assets at the acquisition date, ie their cost to the acquirer.

18.16 Application of the purchase method starts from the acquisition date, which is the date on which the acquirer effectively obtains control of the acquiree. Because control is the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities, it is not necessary for a transaction to be closed or finalised at law before the acquirer obtains control. All pertinent facts and circumstances surrounding a business combination shall be considered in assessing when the acquirer has obtained control.

18.17 In accordance with paragraph 18.13, the acquirer recognises separately as part of allocating the cost of the combination only the identifiable assets, liabilities and contingent liabilities of the acquiree that existed at the acquisition date and satisfy the recognition criteria in paragraph 18.14. Therefore:

(a) the acquirer shall recognise liabilities for terminating or reducing the activities of the acquiree as part of allocating the cost of the combination only when the acquiree has, at the acquisition date, an existing liability for restructuring recognised in accordance with Section 20 *Provisions and Contingencies*; and

(b) the acquirer, when allocating the cost of the combination, shall not recognise liabilities for future losses or other costs expected to be incurred as a result of the business combination.

Contingent liabilities

18.18 Paragraph 18.14 specifies that the acquirer recognises separately a contingent liability of the acquiree as part of allocating the cost of a business combination only if its fair value can be measured reliably. If its fair value cannot be measured reliably:

(a) there is a resulting effect on the amount recognised as goodwill or accounted for in accordance with paragraph 18.22; and

(b) the acquirer shall disclose the information about that contingent liability required to be disclosed by Section 20.

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18.19 After their initial recognition, the acquirer shall measure contingent liabilities that are recognised separately in accordance with paragraph 18.13 at the higher of:

(a) the amount that would be recognised in accordance with Section 20, and

(b) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with Section 28 *Revenue*.

Goodwill

18.20 The acquirer shall, at the acquisition date:

(a) recognise **GOODWILL** acquired in a business combination as an asset; and

(b) initially measure that goodwill at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised in accordance with paragraph 18.13.

18.21 After initial recognition, the acquirer shall measure goodwill acquired in a business combination at cost less any accumulated impairment losses. Section 26 *Impairment of Assets* specifies principles for recognising and measuring the impairment of goodwill.

Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost

18.22 If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised in accordance with paragraph 18.13 exceeds the cost of the business combination, the acquirer shall:

(a) reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and

(b) recognise immediately in profit or loss any excess remaining after that reassessment.

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Disclosure

For business combination(s) effected during the period

18.23 For each business combination that was effected during the period (or group of individually immaterial business combinations), the acquirer shall disclose the following:

(a) the names and descriptions of the combining entities or businesses;

(b) the acquisition date;

(c) the percentage of voting equity instruments acquired;

(d) the cost of the combination and a description of the components of that cost, including any costs directly attributable to the combination. When equity instruments are issued or issuable as part of the cost, the following shall also be disclosed:

(i) the number of equity instruments issued or issuable; and

(ii) the fair value of those instruments and the basis for determining that fair value.;

(e) details of any operations the entity has decided to dispose of as a result of the combination;

(f) the amounts recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities, including goodwill;

(g) the amount of any excess recognised in profit or loss in accordance with paragraph 18.22, and the line item in the income statement in which the excess is recognised.

(h) a description of the factors that contributed to a cost that results in the recognition of goodwill—a description of each intangible asset that was not recognised separately from goodwill and an explanation of why the intangible asset's fair value could not be measured reliably—or a description of the nature of any excess recognised in profit or loss in accordance with paragraph 18.22.

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(i) the amount of the acquiree's profit or loss since the acquisition date included in the acquirer's profit or loss for the period, unless disclosure would be impracticable. If such disclosure would be impracticable, that fact shall be disclosed, together with an explanation of why this is the case.

18.24 The acquirer shall also disclose the following information, unless such disclosure would be **IMPRACTICABLE**:

(a) the revenue of the combined entity for the period as though the acquisition date for all business combinations effected during the period had been the beginning of that period.

(b) the profit or loss of the combined entity for the period as though the acquisition date for all business combinations effected during the period had been the beginning of the period.

If disclosure of this information would be impracticable, that fact shall be disclosed, together with an explanation of why this is the case.

For business combination(s) effected after the end of the reporting period but before the financial statements are authorised for issue

18.25 For each business combination effected after the end of the reporting period but before the financial statements are authorised for issue, the acquirer shall make the disclosures required by paragraph 18.23 unless such disclosure would be impracticable. If disclosure of any of that information would be impracticable, that fact shall be disclosed, together with an explanation of why this is the case.

For all business combinations

19.26 An acquirer shall disclose a reconciliation of the carrying amount of goodwill at the beginning and end of the period, showing separately changes arising from new business combinations, impairment losses, disposals of previously acquired businesses, and other changes. An acquirer shall also disclose the gross amount and accumulated impairment losses at the end of the period.

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SECTION 19 LEASES

19.1 This section shall be applied in accounting for all **LEASES** other than:

(a) leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (these should be accounted for under Section 36 *Specialised Industries*);

(b) licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights (these should be accounted for under Section 17 *Intangible Assets other than Goodwill*);

(c) property held by lessees that is accounted for as investment property (see Section 15 *Investment Property*); and

(d) investment property provided by lessors under operating leases (see Section 15).

19.2 This section applies to agreements that transfer the right to use assets even though substantial services by the lessor may be called for in connection with the operation or maintenance of such assets. This section does not apply to agreements that are contracts for services that do not transfer the right to use assets from one contracting party to the other.

Classification of leases

19.3 A lease is classified as a **FINANCE LEASE** if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an **OPERATING LEASE** if it does not transfer substantially all the risks and rewards incidental to ownership.

19.4 Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

(a) the lease transfers ownership of the asset to the lessee by the end of the lease term;

(b) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option

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becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;

(c) the lease term is for the major part of the economic life of the asset even if title is not transferred;

(d) at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and

(e) the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

19.5 Indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are:

(a) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;

(b) gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and

(c) the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

19.6 The examples and indicators in paragraphs 19.4 and 19.5 are not always conclusive. If it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership, the lease is classified as an operating lease. For example, this may be the case if ownership of the asset transfers at the end of the lease for a variable payment equal to its then fair value, or if there are contingent rents, as a result of which the lessee does not have substantially all such risks and rewards.

19.7 Lease classification is made at the inception of the lease and is not changed during the term of the lease unless the lessee and the lessor agree to change the provisions of the lease (other than simply by renewing the lease), in which case the lease classification shall be re-evaluated.

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Financial statements of lessees—finance leases

Initial recognition

19.8 At the commencement of the lease term, lessees shall recognise the rights and obligations under finance leases as assets and liabilities in their balance sheet at amounts equal to the fair value of the leased property determined at the inception of the lease. Any initial direct costs of the lessee (incremental costs that are directly attributable to negotiating and arranging a lease) are added to the amount recognised as an asset.

Subsequent measurement

19.9 A lessee shall apportion minimum lease payments between the finance charge and the reduction of the outstanding liability. The lessee shall allocate the finance charge to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. A lessee shall charge contingent rents as expenses in the periods in which they are incurred.

19.10 In allocating the finance charge to periods during the lease term, a lessee may use some form of approximation to simplify the calculation.

19.11 A lessee shall depreciate an asset leased under a finance lease in accordance with Section 16 *Property, Plant and Equipment*. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

Disclosures

19.12 Lessees shall make the following disclosures for finance leases:

(a) for each **CLASS OF ASSET**, the net carrying amount at the end of the reporting period.

(b) the total of future minimum lease payments at the end of the reporting period, for each future year;

(c) contingent rents recognised as an expense in the period;

(d) the total of future minimum sublease payments expected to be received under non-cancellable subleases at the end of the reporting period;

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(e) a general description of the lessee's **MATERIAL** leasing arrangements including, but not limited to, the following:

(i) the basis on which contingent rent payable is determined;

(ii) the existence and terms of renewal or purchase options and escalation clauses; and

(iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.

Financial statements of lessees—operating leases

Recognition and measurement

19.13 A lessee shall recognise lease payments under operating leases (excluding costs for services such as insurance and maintenance) as an expense on a straight-line basis unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis.

Disclosures

19.14 Lessees shall make the following disclosures for operating leases:

(a) the total of future minimum lease payments under non-cancellable operating leases for each future year.

(b) the total of future minimum sublease payments expected to be received under non-cancellable subleases at the end of the reporting period.

(c) lease and sublease payments recognised as an expense in the period, with separate amounts for minimum lease payments, contingent rents, and sublease payments.

(d) a general description of the lessee's significant leasing arrangements including, but not limited to, the following:

(i) the basis on which contingent rent payable is determined;

(ii) the existence and terms of renewal or purchase options and escalation clauses; and

(iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt and further leasing.

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Financial statements of lessors: finance leases

19.15 A lessor in a finance lease shall apply paragraphs 36–46 of IAS 17 *Leases* and shall make the disclosures required by paragraphs 47 and 48 of IAS 17.

Financial statements of lessors: operating leases

Recognition and measurement

19.16 A lessor shall present assets subject to operating leases in its balance sheets according to the nature of the asset.

19.17 A lessor shall recognise lease income from operating leases in profit or loss on a straight line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

19.18 A lessor shall recognise as an expense costs, including depreciation, incurred in earning the lease income. A lessor shall recognise lease income (excluding receipts for services provided such as insurance and maintenance) on a straight-line basis over the lease term even if the receipts are not on such a basis, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

19.19 A lessor shall add to the carrying amount of the leased asset any initial direct costs it incurs in negotiating and arranging an operating lease and shall recognise such costs as an expense over the lease term on the same basis as the lease income.

19.20 The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets, and depreciation shall be calculated in accordance with Section 16 and IAS 38 *Intangible Assets*.

19.21 To determine whether a leased asset has become impaired, a lessor shall apply Section 26 *Impairment of Assets*.

19.22 A manufacturer or dealer lessor does not recognise any selling profit on entering into an operating lease because it is not the equivalent of a sale.

Disclosure

19.23 Lessors shall disclose the following for operating leases:

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(a) the future minimum lease payments under non-cancellable operating leases in the aggregate and for each future year;

(b) total contingent rents recognised as income in the period; and

(c) a general description of the lessor's leasing arrangements.

Sale and leaseback transactions

19.24 A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved.

Sale and leaseback transaction results in a finance lease

19.25 If a sale and leaseback transaction results in a finance lease, the seller-lessee shall not recognise immediately, as income, any excess of sales proceeds over the carrying amount. Instead, the seller-lessee shall defer such excess and amortise it over the lease term.

Sale and leaseback transaction results in an operating lease

19.26 If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, the seller-lessee shall recognise any profit or loss immediately. If the sale price is below fair value, the seller-lessee shall recognise any profit or loss immediately except that, if the loss is compensated for by future lease payments at below market price, the seller-lessee shall defer and amortise such loss in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the seller-lessee shall defer the excess over fair value and amortise it over the period for which the asset is expected to be used.

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Disclosure

21.28 Disclosure requirements for lessees and lessors apply equally to sale and leaseback transactions. The required description of material leasing arrangements leads to disclosure of unique or unusual provisions of the agreement or terms of the sale and leaseback transactions.

SECTION 20 PROVISIONS AND CONTINGENCIES

20.1 A **PROVISION** is a liability of uncertain timing or amount.

20.2 The requirements in this section do not apply to provisions that are covered by other sections of this IFRS. These include:

(a) leases (Section 19 *Leases*);

(b) construction contracts (Section 22 *Revenue*);

(c) employee benefit obligations (Section 27 *Employee Benefits*); and

(d) income taxes (Section 28 *Income Taxes*).

20.3 The word 'provision' is sometimes used in the context of such items as depreciation, impairment of assets, and uncollectible receivables. Those are adjustments of the carrying amounts of assets, rather than recognition of liabilities, and are, therefore, not covered by this section.

Initial recognition

20.4 An entity shall recognise a provision only when:

(a) the entity has a present obligation as a result of a past event, and

(b) it is **PROBABLE** (ie more likely than not) that the entity will be required to transfer economic benefits in settlement; and

(c) the amount of the obligation can be estimated reliably.

20.5 In rare cases, it is not clear whether there is a present obligation. In those cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the balance sheet date.

20.6 The entity shall recognise the provision as a liability in the balance sheet and shall recognise the amount of the provision as an expense in profit or loss unless (a) it is part of the cost of producing inventories (see paragraph 12.5) or (b) it is included in the cost of property plant and equipment in accordance with paragraph 16.6(c).

20.7 The condition in paragraph 20.4(a) (present obligation arising from a past event) means that the entity has no realistic alternative to settling the

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obligation. This can happen when the obligation can be enforced by law or when the entity has a **CONSTRUCTIVE OBLIGATION** because the past event has created valid expectations in other parties that the entity will discharge the obligation. On the other hand, obligations that will arise from the entity's future actions (ie the future conduct of its business) do not satisfy the condition in paragraph 20.4(a) no matter how likely they are to occur and even if they are contractual. To illustrate, when an entity signs a five-year employment contract with a senior executive, it does not recognise a provision for the full amount required to settle the contract because the entity's obligation arises when the executive performs under the contract, not when the contract is first signed.

Initial measurement

20.8 An entity shall measure a provision at the best estimate of the expenditure that would be required to settle the obligation at the balance sheet date.

(a) When the provision involves a large population of items, the estimate of the expenditure reflects the weighting of all possible outcomes by their associated probabilities.

(b) When the provision arises from a single obligation, the individual most likely outcome may be the best estimate of the expenditure required to settle the obligation.

When the effect of the time value of money is **MATERIAL**, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation. The discount rate (or rates) shall be a pre tax rate (or rates) that reflect(s) current market assessments of the time value of money. The risks specific to the liability should be reflected either in the discount rate used or in the estimation of the amounts required to settle the obligation, but not both.

20.9 When some or all of the expenditure required to settle a provision may be reimbursed by another party (eg through an insurance claim), the entity shall recognise the reimbursement as a separate asset only when it is virtually certain that the entity will receive the reimbursement on settlement of the obligation. The reimbursement receivable shall be presented on the balance

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sheet as an asset and shall not be offset against the provision. In the income statement, the entity may offset any reimbursement from another party against the expense relating to the provision. An entity shall exclude gains from the expected disposal of assets from the measurement of a provision.

Subsequent measurement

20.10 An entity shall charge against a provision only those expenditures for which the provision was originally recognised.

20.11 An entity shall review provisions at each balance sheet date and adjust them to reflect the current best estimate of the expenditure that would be required to settle the obligation at that balance sheet date. Any adjustments to the amounts previously recognised shall be recognised in profit or loss unless the provision was originally recognised as part of the cost of inventories or property, plant and equipment (see paragraph 20.6). When a provision is measured at the present value of the expenditures expected to be required to settle the obligation, the unwinding of the discount shall be presented as other finance costs adjacent to interest.

Contingent liabilities

20.12 A **CONTINGENT LIABILITY** is a possible obligation that meets one or more of the conditions in paragraph 20.4 but not all three conditions. An entity shall not recognise a contingent liability as a liability. Disclosure may be required by paragraph 20.15.

Contingent assets

20.13 An entity shall not recognise a **CONTINGENT ASSET** as an asset. Disclosure may be required by paragraph 20.16.

Disclosures

Disclosures about provisions

20.14 For each class of provision, an entity shall disclose:

(a) the carrying amount at the beginning and end of the period;

(b) additional provisions made in the period, including increases to existing provisions;

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(c) amounts used (ie incurred and charged against the provision) during the period;

(d) unused amounts reversed during the period;

(e) the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate;

(f) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;

(g) an indication of the uncertainties about the amount or timing of those outflows; and

(h) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Comparative information is not required.

Disclosures about contingent liabilities

20.15 Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the balance sheet date a brief description of the nature of the contingent liability and, when practicable:

(a) an estimate of its financial effect, measured under paragraphs 20.8–20.11;

(b) an indication of the uncertainties relating to the amount or timing of any outflow; and

(c) the possibility of any reimbursement.

If it is **IMPRACTICABLE** to make one or more of these disclosures, that fact shall be stated.

Disclosures about contingent assets

20.16 If an inflow of economic benefits is probable (more likely than not) but not virtually certain, an entity shall disclose a description of the nature of the contingent assets at the end of the reporting period, and, where practicable, an estimate of their financial effect, measured using the principles set out in paragraphs 20.8–20.11. If it is not practicable to make this disclosure, that fact shall be stated.

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20.17 In extremely rare cases, disclosure of some or all of the information required by paragraphs 20.14–20.16 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

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Appendix to Section 20

Guidance on Implementing Section 20

This Appendix accompanies, but is not part of Section 20. It provides guidance for applying the requirements of Section 20 in recognising and measuring provisions.

Example 1 - Future operating losses

20A.1 An entity determines that it is probable that a segment of its operations will incur future operating losses for several years.

Present obligation as a result of a past obligating event—There is no past event that obligates the entity to pay out resources.

Conclusion—The entity does not recognise a provision for future operating losses. Expected future losses do not meet the definition of a liability. The expectation of future operating losses may be an indicator that one or more assets are impaired—see Section 26 *Impairment of Non-financial Assets.*

Example 2 - Onerous contracts

20A.2 An onerous contract is one in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. For example, an entity may be obligated under an operating lease to make payments to lease an asset for which it no longer has any use.

Present obligation as a result of a past obligating event—The entity is contractually obligated to pay out resources for which it will not receive commensurate benefits.

Conclusion—If an entity has a contract that is onerous, the entity recognises and measures the present obligation under the contract as a provision.

Example 3 - Restructurings

20A.3 A restructuring is a programme that is planned and controlled by management, and materially changes either:

(a) the scope of a business undertaken by an entity; or

(b) the manner in which that business is conducted.

Present obligation as a result of a past obligating event—A constructive obligation to restructure arises only when an entity:

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(a) has a detailed formal plan for the restructuring identifying at least:

  (i) the business or part of a business concerned;

  (ii) the principal locations affected;

  (iii) the location, function, and approximate number of employees who will be compensated for terminating their services;

  (iv) the expenditures that will be undertaken; and

  (v) when the plan will be implemented; and

(b) has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Conclusion—An entity recognises a provision for restructuring costs only when it has a legal or constructive obligation to carry out the restructuring.

Example 4 - Warranties

20A.4 A manufacturer gives warranties at the time of sale to purchasers of its product. Under the terms of the contract for sale the manufacturer undertakes to make good, by repair or replacement, manufacturing defects that become apparent within three years from the date of sale. On past experience, it is probable (ie more likely than not) that there will be some claims under the warranties.

Present obligation as a result of a past obligating event—The obligating event is the sale of the product with a warranty, which gives rise to a legal obligation.

An outflow of resources embodying economic benefits in settlement—Probable for the warranties as a whole.

Conclusion—The entity recognises a provision for the best estimate of the costs of making good under the warranty products sold before the balance sheet date.

Illustration of calculations:

In 20X0, goods are sold for 1,000,000. Experience indicates that 90 per cent of products sold require no warranty repairs; 6 per cent of products sold require minor repairs costing 30 per cent of the sale price; and 4 per cent of

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products sold require major repairs or replacement costing 70 per cent of sale price. Therefore estimated warranty costs are:

1,000,000 x 90% x 0 =	0
1,000,000 x 6% x 30% =	18,000
1,000,000 x 4% x 70% =	28,000
Total	46,000

The expenditures for warranty repairs and replacements for products sold in 20X0 are expected to be made 60 per cent in 20X1, 30 per cent in 20X2, and 10 per cent in 20X3. Because the estimated cash flows already reflect the probabilities of the cash outflows, to determine the present value of those cash flows the entity uses a 'risk-free' discount rate based on government bonds with the same term as the expected cash outflows (6 per cent for one-year bonds and 7 per cent for two-year and three-year bonds). Calculation of the present value, at the end of 20X0, of the estimated cash flows related to the warranties for products sold in 20X0, is as follows:

Year		Expected cash payments	Discount rate	Discount factor	Present value
1	60% x 46,000	27,600	6%	0.9434 (at 6% for 1 year)	26,038
2	30% x 46,000	13,800	7%	0.8734 (at 7% for 2 years)	12,053
3	10% x 46,000	4,600	7%	0.8163 (at 7% for 3 years)	3,755
Total					41,846

The entity will recognise a warranty obligation of 41,846 at the end of 20X0 for products sold in 20X0.

Example 5 - Refunds policy

20A.5 A retail store has a policy of refunding purchases by dissatisfied customers, even though it is under no legal obligation to do so. Its policy of making refunds is generally known.

Present obligation as a result of a past obligating event—The obligating event is the sale of the product, which gives rise to a constructive obligation because

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the conduct of the store has created a valid expectation on the part of its customers that the store will refund purchases.

An outflow of resources embodying economic benefits in settlement—Probable that a proportion of goods will be returned for refund.

Conclusion—The entity recognises a provision for the best estimate of the costs of refunds.

Example 6 - Closure of a division—no implementation before end of reporting period

20A.6 On 12 December 20X0 the board of an entity decided to close down a division. Before the end of the reporting period (31 December 20X0) the decision was not communicated to any of those affected and no other steps were taken to implement the decision.

Present obligation as a result of a past obligating event—There has been no obligating event and so there is no obligation.

Conclusion—The entity does not recognise a provision.

Example 7 - Closure of a division—communication and implementation before end of reporting period

20A.7 On 12 December 20X0, the board of an entity decided to close down a division making a particular product. On 20 December 20X0 a detailed plan for closing down the division was agreed by the board; letters were sent to customers warning them to seek an alternative source of supply and redundancy notices were sent to the staff of the division.

Present obligation as a result of a past obligating event—The obligating event is the communication of the decision to the customers and employees, which gives rise to a constructive obligation from that date, because it creates a valid expectation that the division will be closed.

An outflow of resources embodying economic benefits in settlement—Probable.

Conclusion—The entity recognises a provision at 31 December 20X0 for the best estimate of the costs of closing the division.

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Example 8 - Staff retraining as a result of changes in the income tax system

20A.8 The government introduces a number of changes to the income tax system. As a result of these changes, an entity in the financial services sector will need to retrain a large proportion of its administrative and sales workforce in order to ensure continued compliance with financial services regulation. At the end of the reporting period, no retraining of staff has taken place.

Present obligation as a result of a past obligating event—There is no obligation because no obligating event (retraining) has taken place.

Conclusion—The entity does not recognise a provision.

Example 9 - A court case

20A.9 A customer has sued Entity X, seeking damages for injury the customer allegedly sustained from using a product sold by Entity X. Entity X disputes liability on grounds that the customer did not follow directions in using the product. Up to the date the board authorised the financial statements for the year to 31 December 20X1 for issue, the entity's lawyers advise that it is probable that the entity will not be found liable. However, when the entity prepares the financial statements for the year to 31 December 20X2, its lawyers advise that, owing to developments in the case, it is now probable that the entity will be found liable.

(a) At 31 December 20X1

Present obligation as a result of a past obligating event—On the basis of the evidence available when the financial statements were approved, there is no obligation as a result of past events.

Conclusion—No provision is recognised. The matter is disclosed as a contingent liability unless the probability of any outflow is regarded as remote.

(b) At 31 December 20X2

Present obligation as a result of a past obligating event—On the basis of the evidence available, there is a present obligation.

An outflow of resources embodying economic benefits in settlement—Probable.

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Conclusion—A provision is recognised for the best estimate of the amount to settle the obligation.

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SECTION 21 EQUITY

21.1 **EQUITY** is the residual interest in the assets of the entity after deducting all its liabilities. Equity includes investments by the owners of an entity, plus additions to those investments earned through profitable operations and retained for use in the entity's operations, minus reductions to owners' investments as a result of unprofitable operations and distributions to owners. This section addresses accounting for the issue of equity instruments to individuals or other parties acting in their capacity as investors in equity instruments. Section 25 *Share-based Payment* addresses accounting for a transaction in which the entity receives goods or services (including employee services) as consideration for its equity instruments (including shares or share options) from employees and other vendors acting in their capacity as vendors of goods and services.

Original issue of shares

21.2 An entity shall recognise the issue of equity shares as equity when it issues those shares and another party is obliged to provide cash or other resources to the entity in exchange for the shares.

(a) If the shares are issued before the cash or other resources are provided, the entity shall present the amount receivable as an offset in the equity section of its balance sheet, not as an asset.

(b) If the cash or other resources are received before the shares are issued, and the entity could not be required to repay the cash or other resources received, the entity shall recognise the corresponding increase in equity to the extent of consideration received.

(c) To the extent that shares have been subscribed for but cash or other resources have not yet been provided, an increase in equity shall not be recognised.

21.3 An entity shall measure the equity at the fair value of the cash or other resources received or receivable, net of direct costs of issuing the equity shares. If payment is deferred and the time value of money is significant, the initial measurement shall be on a present value basis.

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21.4 The classification in the balance sheet of the increase in equity arising on the issuance of shares is determined by the applicable laws. For example, the par value (or other nominal value) of the shares and the amount paid in excess of par value may be presented in separate classifications.

Sale of options, rights, and warrants

21.5 An entity shall apply the principles in paragraphs 21.2 and 21.3 to equity issued by means of sales of options, rights, warrants, and similar equity instruments.

Capitalisation or bonus issues of shares and share splits

21.6 A capitalisation or bonus issue (sometimes referred to as a stock dividend) is the issue of new shares to shareholders in proportion to their existing holdings. For example, an entity may give its shareholders one dividend or bonus share for every five shares held. A share split (sometimes referred to as a stock split) is the dividing of an entity's existing shares into multiple shares. For example, in a 2-for-1 split, each shareholder receives one additional share for each share held. In some cases, the previously outstanding shares are cancelled and replaced by new shares. Capitalisation and bonus issues and share splits do not change total equity. An entity shall reclassify amounts within equity as required by the applicable laws.

Issuance of compound financial instruments

21.7 On issuing convertible debt or similar compound financial instruments that contain both a liability and an equity component, an entity shall allocate the proceeds between the liability component and the equity component. To make the allocation, the entity shall first determine the amount of the liability component as the fair value of a similar liability that does not have an associated equity component. The entity shall allocate the residual amount as the equity component.

21.8 The entity shall not revise the allocation in a subsequent period.[2]

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[2] The IASB is working on a project on Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation. An exposure draft was issued in June 2006. A goal of that project is to provide guidance on which financial instruments should be classified as equity instruments and which should be classified as liabilities.

21.9 In periods after the instruments were issued, the entity shall systematically recognise any difference between the liability component and the principal amount payable at maturity as additional interest expense using the **EFFECTIVE INTEREST METHOD**.

Treasury shares

21.10 **TREASURY SHARES** are the equity instruments of an entity that have been acquired or reacquired by the entity. An entity shall deduct the fair value of the consideration given for the treasury shares from equity. The entity shall not recognise a gain or loss in profit or loss on the purchase, sale, issue or cancellation of treasury shares.

Minority interest and transactions in shares of a consolidated subsidiary

21.11 In consolidated financial statements, a minority (ie non-controlling) interest in the net assets of a subsidiary is included in equity. Changes in a parent's controlling interest in a subsidiary that do not result in a loss of control should be treated as transactions with equity holders in their capacity as equity holders. No gain or loss on these changes shall be recognised in consolidated profit or loss. Also, no change in the carrying amounts of assets (including goodwill) or liabilities shall be recognised as a result of such transactions.

Disclosure

21.12 Paragraph 4.13(a)(iv) of this IFRS requires an entity with share capital to disclose, either on the face of the balance sheet or in the notes, for each class of share capital, a reconciliation of the number of shares outstanding at the beginning and at the end of the period. In that reconciliation, the entity shall identify separately each significant type of change in the number of shares outstanding, including new issuances; exercises of options, rights, and warrants; conversions of convertible securities; treasury share transactions; business combinations; and stock dividends and share splits.

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SECTION 22 REVENUE

22.1 This section shall be applied in accounting for **REVENUE** arising from the following transactions and events:

(a) the sale of goods (whether produced by the entity for the purpose of sale or purchased for resale) ;

(b) the rendering of services; and

(c) the use by others of entity assets yielding interest, royalties and dividends.

22.2 Revenue arising from some transactions and events is dealt with in other sections of this IFRS:

(a) lease agreements (see Section 19 *Leases*);

(b) dividends arising from investments that are accounted for under the equity method (see Section 13 *Investments in Associates*);

(c) changes in the fair value of financial assets and financial liabilities or their disposal (see Section 11 *Financial Assets and Financial Liabilities*);

(d) initial recognition and from changes in the fair value of biological assets related to agricultural activity (see Section 35 *Specialised Industries*); and

(e) initial recognition of agricultural produce (see Section 35).

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Measurement of revenue

22.3 An entity shall measure revenue at the **FAIR VALUE** of the consideration received or receivable. The fair value of the consideration received or receivable excludes the amount of any trade discounts and volume rebates allowed by the entity.

22.4 An entity shall include in revenue only the gross inflows of economic benefits received and receivable by the entity on its own account. An entity shall exclude from revenue all amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes. In an agency

relationship, an entity shall include in revenue only the amount of commission. The amounts collected on behalf of the principal are not revenue of the entity.

Deferred payment

22.5 When the inflow of cash or cash equivalents is deferred, and the arrangement constitutes in effect a financing transaction, the fair value of the consideration is the present value of all future receipts determined using an imputed rate of interest. A financing transaction arises when, for example, an entity provides interest free credit to the buyer or accepts a note receivable bearing a below market interest rate from the buyer as consideration for the sale of goods. The imputed rate of interest is the more clearly determinable of either:

(a) the prevailing rate for a similar instrument of an issuer with a similar credit rating; or

(b) a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

An entity shall recognise the difference between the present value of all future receipts and the nominal amount of the consideration as interest revenue in accordance with paragraphs 22.15 and 22.16 and in accordance with Section 11.

Exchanges of goods or services

22.6 An entity shall not recognise revenue when goods or services are exchanged or swapped for goods or services that are of a similar nature and value. However, an entity shall recognise revenue when goods are sold or services are rendered in exchange for dissimilar goods or services. In this case, the entity shall measure the transaction at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. If the transaction cannot be measured at fair value, then the entity shall measure it at the carrying amount of the asset given up.

Identification of the revenue transaction

22.7 An entity usually applies the recognition criteria in this IFRS separately to each transaction. However, an entity applies the recognition criteria to the

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separately identifiable components of a single transaction when necessary to reflect the substance of the transaction. For example, an entity applies the recognition criteria to the separately identifiable components of a single transaction when the selling price of a product includes an identifiable amount for subsequent servicing. Conversely, an entity applies the recognition criteria to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole. For example, an entity applies the recognition criteria to two or more transactions together when it sells goods and, at the same time, enter into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction.

Sale of goods

22.8 An entity shall recognise revenue from the sale of goods when all the following conditions have been satisfied:

(a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;

(b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective **CONTROL** over the goods sold;

(c) the amount of revenue can be measured reliably;

(d) it is probable that the economic benefits associated with the transaction will flow to the entity; and

(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

22.9 The assessment of when an entity has transferred the significant risks and rewards of ownership to the buyer requires an examination of the circumstances of the transaction. In most cases, the transfer of the risks and rewards of ownership coincides with the transfer of the legal title or the passing of possession to the buyer. This is the case for most retail sales. In other cases, the transfer of risks and rewards of ownership occurs at a different time from the transfer of legal title or the passing of possession.

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22.10 The entity does not recognise revenue if it retains significant risks of ownership. Examples of situations in which the entity may retain the significant risks and rewards of ownership are:

(a) when the entity retains an obligation for unsatisfactory performance not covered by normal warranty provisions;

(b) when the receipt of the revenue from a particular sale is contingent on the buyer selling the goods;

(c) when the goods are shipped subject to installation and the installation is a significant part of the contract that has not yet been completed; and

(d) when the buyer has the right to rescind the purchase for a reason specified in the sales contract and the entity is uncertain about the probability of return.

22.11 If an entity retains only an insignificant risk of ownership, the transaction is a sale and the entity recognises the revenue. For example, a seller recognises revenue when it retains the legal title to the goods solely to protect the collectibility of the amount due. Similarly an entity recognises revenue when it offers a refund if the customer is not satisfied. In such cases, the entity recognises a provision for returns in accordance with Section 20.

Rendering of services

22.12 When the outcome of a transaction involving the rendering of services can be estimated reliably, an entity shall recognise revenue associated with the transaction by reference to the stage of completion of the transaction at the end of the reporting period (sometimes referred to as the percentage of completion method). The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

(a) the amount of revenue can be measured reliably;

(b) it is probable that the economic benefits associated with the transaction will flow to the entity;

(c) the stage of completion of the transaction at the end of the reporting period can be measured reliably; and

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(d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Paragraphs 22.17–22.27 provide guidance for applying the percentage of completion method.

22.13 When services are performed by an indeterminate number of acts over a specified period of time, an entity recognises revenue on a straight-line basis over the specified period unless there is evidence that some other method better represents the stage of completion. When a specific act is more significant than any other act, the entity postpones recognition of revenue until the significant act is executed.

22.14 When the outcome of the transaction involving the rendering of services cannot be estimated reliably, an entity shall recognise revenue only to the extent of the expenses recognised that are recoverable.

Interest, royalties and dividends

22.15 An entity shall recognise revenue arising from the use by others of entity assets yielding interest, royalties and dividends on the bases set out in paragraph 22.16 when:

(a) it is probable that the economic benefits associated with the transaction will flow to the entity; and

(b) the amount of the revenue can be measured reliably.

22.16 An entity shall recognise revenue on the following bases:

(a) interest shall be recognised using the effective interest method as described in Section 11;

(b) royalties shall be recognised on an accrual basis in accordance with the substance of the relevant agreement; and

(c) dividends shall be recognised when the shareholder's right to receive payment is established.

Construction contracts

22.17 When the outcome of a construction contract can be estimated reliably, an entity shall recognise contract revenue and contract costs associated with the

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construction contract as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period (often referred to as the percentage of completion method). Reliable estimation of the outcome requires reliable estimates of the stage of completion, future costs and collectibility of billings.

22.18 The requirements of this section are usually applied separately to each construction contract. However, in certain circumstances, it is necessary to apply this section to the separately identifiable components of a single contract or to a group of contracts together in order to reflect the substance of a contract or a group of contracts.

22.19 When a contract covers a number of assets, the construction of each asset shall be treated as a separate construction contract when:

(a) separate proposals have been submitted for each asset;

(b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and

(c) the costs and revenues of each asset can be identified.

22.20 A group of contracts, whether with a single customer or with several customers, shall be treated as a single construction contract when:

(a) the group of contracts is negotiated as a single package;

(b) the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin; and

(c) the contracts are performed concurrently or in a continuous sequence.

Percentage of completion method

22.21 An entity shall review and, when necessary, revise the estimates of revenue and costs as the service transaction or construction contract progresses.

22.22 An entity shall determine the stage of completion of a transaction or contract using the method that measures most reliably the work performed. Possible methods include:

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(a) the proportion that costs incurred for work performed to date bear to the estimated total costs. Costs incurred for work performed to date do not include costs relating to future activity, such as for materials or prepayments;

(b) surveys of work performed; or

(c) completion of a physical proportion of the service transaction or contract work.

Progress payments and advances received from customers often do not reflect the work performed.

22.23 An entity shall recognise costs that relate to future activity on the transaction or contract, such as for materials or prepayments, as an asset if it is probable that the costs will be recovered. Such costs represent an amount due from the customer and are classified as work in progress.

22.24 An entity shall recognise as an expense immediately any costs that are not probable of being recovered.

22.25 When the outcome of a construction contract cannot be estimated reliably:

(a) an entity shall recognise revenue only to the extent of contract costs incurred that it is probable will be recoverable; and

(b) the entity shall recognise contract costs as an expense in the period in which they are incurred.

22.26 When it is probable that total contract costs will exceed total contract revenue on a construction contract, the expected loss shall be recognised as an expense immediately.

22.27 If the collectibility of an amount already recognised as contract revenue is no longer probable, the entity shall recognise the uncollectible amount as an expense rather than as an adjustment of the amount of contract revenue.

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Disclosure

General disclosures relating to revenue

22.28 An entity shall disclose:

(a) the accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services;

(b) the amount of each category of revenue recognised during the period, including revenue arising from:

(i) the sale of goods;

(ii) the rendering of services;

(iii) interest;

(iv) royalties;

(v) dividends; and

(c) the amount of revenue arising from exchanges of goods or services included in each category of revenue.

Disclosures relating to revenue from construction contracts

22.29 An entity shall disclose:

(a) the amount of contract revenue recognised as revenue in the period;

(b) the methods used to determine the contract revenue recognised in the period; and

(c) the methods used to determine the stage of completion of contracts in progress.

22.30 An entity shall disclose each of the following for contracts in progress at the balance sheet date:

(a) the aggregate amount of costs incurred and recognised profits (less recognised losses) to date;

(b) the amount of advances received; and

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(c) the amount of retentions (progress billings that are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts or until defects have been rectified).

22.31 An entity shall present:

(a) the gross amount due from customers for contract work as an asset; and

(b) the gross amount due to customers for contract work as a liability.

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Appendix to Section 22

Examples of revenue recognition under the principles in Section 22

This Appendix accompanies, but is not part of, Section 22. It provides guidance for applying the requirements of Section 22 in recognising and measuring revenue.

22A.1 The following examples focus on particular aspects of a transaction and are not a comprehensive discussion of all the relevant factors that might influence the recognition of revenue. The examples generally assume that the amount of revenue can be measured reliably, it is probable that the economic benefits will flow to the entity and the costs incurred or to be incurred can be measured reliably.

Sale of goods

22A.2 The law in different countries may cause the recognition criteria in this section to be met at different times. In particular, the law may determine the point in time at which the entity transfers the significant risks and rewards of ownership. Therefore, the examples in this appendix need to be read in the context of the laws relating to the sale of goods in the country in which the transaction takes place.

Example 1—'Bill and hold' sales, in which delivery is delayed at the buyer's request but the buyer takes title and accepts billing.

22A.3 The seller recognises revenue when the buyer takes title, provided:

(a) it is probable that delivery will be made;

(b) the item is on hand, identified and ready for delivery to the buyer at the time the sale is recognised;

(c) the buyer specifically acknowledges the deferred delivery instructions; and

(d) the usual payment terms apply.

Revenue is not recognised when there is simply an intention to acquire or manufacture the goods in time for delivery.

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Example 2—Goods shipped subject to conditions: installation and inspection

22A.4 The seller normally recognises revenue when the buyer accepts delivery, and installation and inspection are complete. However, revenue is recognised immediately upon the buyer's acceptance of delivery when:

(a) the installation process is simple, for example the installation of a factory tested television receiver that requires only unpacking and connection of power and antennae; or

(b) the inspection is performed only for the purposes of final determination of contract prices, for example, shipments of iron ore, sugar or soya beans.

Example 3—Goods shipped subject to conditions: on approval when the buyer has negotiated a limited right of return

22A.5 If there is uncertainty about the possibility of return, the seller recognises revenue when the shipment has been formally accepted by the buyer or the goods have been delivered and the time period for rejection has elapsed.

Example 4—Goods shipped subject to conditions: consignment sales under which the recipient (buyer) undertakes to sell the goods on behalf of the shipper (seller).

22A.6 The shipper recognises revenue when the goods are sold by the recipient to a third party.

Example 5—Goods shipped subject to conditions: cash on delivery sales.

22A.7 The seller recognises revenue when delivery is made and cash is received by the seller or its agent.

Example 6—Layaway sales under which the goods are delivered only when the buyer makes the final payment in a series of instalments.

22A.8 The seller recognises revenue from such sales when the goods are delivered. However, when experience indicates that most such sales are consummated, revenue may be recognised when a significant deposit is received provided the goods are on hand, identified and ready for delivery to the buyer.

Example 7 - Orders when payment (or partial payment) is received in advance of delivery for goods not currently held in inventory, for example, the goods are still to be manufactured or will be delivered direct to the customer from a third party.

22A.9 The seller recognises revenue when the goods are delivered to the buyer.

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Example 8—Sale and repurchase agreements (other than swap transactions) under which the seller concurrently agrees to repurchase the same goods at a later date, or when the seller has a call option to repurchase, or the buyer has a put option to require the repurchase, by the seller, of the goods.

22A.10 For a sale and repurchase agreement on an asset other than a financial asset, the seller must analyse the terms of the agreement to ascertain whether, in substance, the risks and rewards of ownership have been transferred to the buyer. If they have been transferred, the seller recognises revenue. When the seller has retained the risks and rewards of ownership, even though legal title has been transferred, the transaction is a financing arrangement and does not give rise to revenue. For a sale and repurchase agreement on a financial asset, Section 11 applies.

Example 9—Sales to intermediate parties, such as distributors, dealers or others for resale.

22A.11 The seller generally recognises revenue from such sales when the risks and rewards of ownership have passed. However, when the buyer is acting, in substance, as an agent, the sale is treated as a consignment sale.

Example 10—Subscriptions to publications and similar items.

22A.12 When the items involved are of similar value in each time period, the seller recognises revenue on a straight-line basis over the period in which the items are despatched. When the items vary in value from period to period, the seller recognises revenue on the basis of the sales value of the item despatched in relation to the total estimated sales value of all items covered by the subscription.

Example 11—Instalment sales, under which the consideration is receivable in instalments.

22A.13 The seller recognises revenue attributable to the sales price, exclusive of interest, at the date of sale. The sale price is the present value of the consideration, determined by discounting the instalments receivable at the imputed rate of interest. The seller recognises the interest element as revenue using the effective interest method.

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Example 12—Real estate sales.

22A.14 The seller normally recognises revenue when legal title passes to the buyer. However, in some jurisdictions the equitable interest in a property may vest in the buyer before legal title passes and, therefore, the risks and rewards of ownership have been transferred at that stage. In such cases, provided that the seller has no further substantial acts to complete under the contract, it may be appropriate to recognise revenue. In either case, if the seller is obliged to perform any significant acts after the transfer of the equitable and/or legal title, revenue is recognised as the acts are performed. An example is a building or other facility on which construction has not been completed.

22A.15 In some cases, real estate may be sold with such a degree of continuing involvement by the seller that the risks and rewards of ownership have not been transferred. Examples are sale and repurchase agreements that include put and call options, and agreements whereby the seller guarantees occupancy of the property for a specified period, or guarantees a return on the buyer's investment for a specified period. In such cases, the nature and extent of the seller's continuing involvement determines how the transaction is accounted for. It may be accounted for as a sale, or as a financing, leasing or some other profit-sharing arrangement. If it is accounted for as a sale, the continuing involvement of the seller may delay the recognition of revenue.

22A.16 A seller also considers the means of payment and evidence of the buyer's commitment to complete payment. For example, when the aggregate of the payments received, including the buyer's initial down payment, or continuing payments by the buyer, provide insufficient evidence of the buyer's commitment to complete payment, the seller recognises revenue only to the extent cash is received.

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Rendering of services

Example 13—Installation fees.

22A.17 The seller recognises installation fees as revenue by reference to the stage of completion of the installation, unless they are incidental to the sale of a product, in which case they are recognised when the goods are sold.

Example 14—Servicing fees included in the price of the product.

22A.18 When the selling price of a product includes an identifiable amount for subsequent servicing (for example, after sales support and product enhancement on the sale of software), the seller defers that amount and recognises it as revenue over the period during which the service is performed. The amount deferred is that which will cover the expected costs of the services under the agreement, together with a reasonable profit on those services.

Example 15—Advertising commissions.

22A.19 Media commissions are recognised when the related advertisement or commercial appears before the public. Production commissions are recognised by reference to the stage of completion of the project.

*23A.*15 **Example 16—Insurance agency commissions.**

22A.20 Insurance agency commissions received or receivable that do not require the agent to render further service are recognised as revenue by the agent on the effective commencement or renewal dates of the related policies. However, when it is probable that the agent will be required to render further services during the life of the policy, the agent defers the commission, or part of it, and recognises it as revenue over the period during which the policy is in force.

Example 17—Admission fees.

22A.21 The seller recognises revenue from artistic performances, banquets and other special events when the event takes place. When a subscription to a number of events is sold, the seller allocates the fee to each event on a basis that reflects the extent to which services are performed at each event.

Example 18—Tuition fees.

22A.22 The seller recognises revenue over the period of instruction.

Example 19—Initiation, entrance and membership fees.

22A.23 Revenue recognition depends on the nature of the services provided. If the fee permits only membership, and all other services or products are paid for separately, or if there is a separate annual subscription, the fee is recognised as revenue when no significant uncertainty about its collectibility exists. If the fee entitles the member to services or publications to be provided during the

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membership period, or to purchase goods or services at prices lower than those charged to non-members, it is recognised on a basis that reflects the timing, nature and value of the benefits provided.

Franchise fees

22A.24 Franchise fees may cover the supply of initial and subsequent services, equipment and other tangible assets, and know how. Accordingly, franchise fees are recognised as revenue on a basis that reflects the purpose for which the fees were charged. The following methods of franchise fee recognition are appropriate:

Example 20—Franchise fees: Supplies of equipment and other tangible assets.

22A.25 The franchisor recognises the fair value of the assets sold as revenue when the items are delivered or title passes.

Example 21—Franchise fees: Supplies of initial and subsequent services.

22A.26 The franchisor recognises fees for the provision of continuing services, whether part of the initial fee or a separate fee, as revenue as the services are rendered. When the separate fee does not cover the cost of continuing services together with a reasonable profit, part of the initial fee, sufficient to cover the costs of continuing services and to provide a reasonable profit on those services, is deferred and recognised as revenue as the services are rendered.

22A.27 The franchise agreement may provide for the franchisor to supply equipment, inventories, or other tangible assets, at a price lower than that charged to others or a price that does not provide a reasonable profit on those sales. In these circumstances, part of the initial fee, sufficient to cover estimated costs in excess of that price and to provide a reasonable profit on those sales, is deferred and recognised over the period the goods are likely to be sold to the franchisee. The balance of an initial fee is recognised as revenue when performance of all the initial services and other obligations required of the franchisor (such as assistance with site selection, staff training, financing and advertising) has been substantially accomplished.

22A.28 The initial services and other obligations under an area franchise agreement may depend on the number of individual outlets established in the area. In this case, the fees attributable to the initial services are recognised as revenue in

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proportion to the number of outlets for which the initial services have been substantially completed.

22A.29 If the initial fee is collectible over an extended period and there is a significant uncertainty that it will be collected in full, the fee is recognised as cash instalments are received.

Example 22—Franchise fees: Continuing franchise fees.

22A.30 Fees charged for the use of continuing rights granted by the agreement, or for other services provided during the period of the agreement, are recognised as revenue as the services are provided or the rights used.

Example 23—Franchise fees: Agency transactions.

22A.31 Transactions may take place between the franchisor and the franchisee that, in substance, involve the franchisor acting as agent for the franchisee. For example, the franchisor may order supplies and arrange for their delivery to the franchisee at no profit. Such transactions do not give rise to revenue.

Example 24—Fees from the development of customised software.

22A.32 The software developer recognises fees from the development of customised software as revenue by reference to the stage of completion of the development, including completion of services provided for post delivery service support.

Interest, royalties and dividends

Example 25—Licence fees and royalties.

22A.33 The licensor recognises fees and royalties paid for the use of an entity's assets (such as trademarks, patents, software, music copyright, record masters and motion picture films) in accordance with the substance of the agreement. As a practical matter, this may be on a straight-line basis over the life of the agreement, for example, when a licensee has the right to use certain technology for a specified period of time.

22A.34 An assignment of rights for a fixed fee or non-refundable guarantee under a non-cancellable contract that permits the licensee to exploit those rights freely and the licensor has no remaining obligations to perform is, in substance, a sale. An example is a licensing agreement for the use of software when the

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licensor has no obligations after delivery. Another example is the granting of rights to exhibit a motion picture film in markets where the licensor has no control over the distributor and expects to receive no further revenues from the box office receipts. In such cases, revenue is recognised at the time of sale.

22A.35 In some cases, whether or not a licence fee or royalty will be received is contingent on the occurrence of a future event. In such cases, revenue is recognised only when it is probable that the fee or royalty will be received, which is normally when the event has occurred.

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SECTION 23 GOVERNMENT GRANTS

23.1 A **GOVERNMENT GRANT** is assistance by government in the form of a transfer of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity.

23.2 Government grants exclude those forms of government assistance that cannot reasonably have a value placed upon them and transactions with government that cannot be distinguished from the normal trading transactions of the entity.

Recognition and measurement

23.3 An entity shall account for its government grants using either :

(a) the 'IFRS for SMEs model' in paragraph 23.4 for all government grants; or

(b) the 'IFRS for SMEs model' in paragraph 23.4 for those government grants related to assets measured at fair value through profit or loss and IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* for all other grants.

IFRS for SMEs model

23.4 An entity shall recognise government grants as follows:

(a) an unconditional grant is recognised in income when the grant is receivable;

(b) a conditional grant is recognised in income only when the conditions are met;

(c) grants are measured at the fair value of the asset received; and

(d) grants received before the income recognition criteria are satisfied are recognised as deferred income (a liability).

Disclosure

23.5 An entity shall disclose the following regardless of which choice it has made under paragraph 23.3:

(a) the accounting policy adopted for government grants, including the methods of presentation adopted in the financial statements;

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(b) the nature and extent of government grants recognised in the financial statements;

(c) unfulfilled conditions and other contingencies attaching to government grants that have been recognised; and

(d) an indication of other forms of government assistance from which the entity has directly benefited.

23.6 For the purpose of the disclosure required by paragraph 23.5(d), government assistance is action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under specified criteria. Examples include free technical or marketing advice, the provision of guarantees, and loans at nil or low interest rates.

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SECTION 24 BORROWING COSTS

24.1 Borrowing costs are interest and other costs arising on an entity's financial liabilities. Borrowing costs include:

(a) interest on bank overdrafts and short-term and long-term borrowings;

(b) amortisation of discounts or premiums relating to borrowings;

(c) amortisation of ancillary costs incurred in connection with the arrangement of borrowings;

(d) finance charges in respect of finance leases recognised in accordance with Section 19 *Leases*; and

(e) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Recognition

24.2 An entity shall account for all of its borrowing costs using either:

(a) the expense model in paragraph 24.3; or

(b) the capitalisation model in paragraph 24.4.[3]

Expense model

24.3 An entity shall recognise all borrowing costs as an expense in profit or loss in the period in which they are incurred.

Capitalisation model

24.4 An entity that elects to use the capitalisation model shall apply IAS 23 *Borrowing Costs*.

Disclosure

24.5 An entity shall disclose the accounting policy adopted for borrowing costs. If the capitalisation model is adopted as provided in paragraph 24.4, the entity shall include the relevant disclosures required by IAS 23.

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[3] The IASB has published an Exposure Draft proposing to amend IAS 23 to prohibit the expense model and to require the capitalisation model. Question 13 in the Invitation to Comment to this Exposure Draft invites comment on whether that approach should be required in the IFRS for SMEs, and why.

SECTION 25 SHARE-BASED PAYMENT

25.1 An entity shall apply this section in accounting for all **SHARE-BASED PAYMENT TRANSACTIONS** including:

(a) **EQUITY-SETTLED SHARE-BASED PAYMENT** transactions, in which the entity receives goods or services as consideration for equity instruments of the entity (including shares or share options),

(b) **CASH-SETTLED SHARE-BASED PAYMENT** transactions, in which the entity acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price (or value) of the entity's shares or other equity instruments of the entity, and

(c) transactions in which the entity receives or acquires goods or services and the terms of the arrangement provide either the entity or the supplier of those goods or services with a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments.

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Recognition

25.2 An entity shall recognise the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received. The entity shall recognise a corresponding increase in equity if the goods or services were received in an equity-settled share-based payment transaction, or a liability if the goods or services were acquired in a cash-settled share-based payment transaction.

25.3 When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, the entity shall recognise them as expenses.

Measurement of equity settled share based payment transactions

25.4 An entity shall apply IFRS 2 *Share-based Payment* in measuring equity-settled share-based payment transactions, and shall make the relevant disclosures required by IFRS 2. For equity-settled share-based payment transactions with employees, IFRS 2 generally requires measurement by reference to the **FAIR**

VALUE of the equity instruments granted. However, if the entity is unable to estimate reliably the fair value of the equity instruments granted at the measurement date, IFRS 2 provides for measurement of the equity instruments at their **INTRINSIC VALUE**, which is the difference between the fair value of the shares and the price, if any, that the counterparty is, or will be, required to pay for those shares. Intrinsic value is measured initially at the **GRANT DATE** and subsequently at each reporting date and at the date of final settlement, with any change in intrinsic value recognised in profit or loss.

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Cash settled share-based payment transactions

25.5 For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity shall remeasure the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

25.6 For transactions with employees, if the equity instruments granted do not vest until the employees have completed a specified period of service, the entity shall recognise the services received as the employees render service during that period.

Share-based payment transactions with cash alternatives

25.7 For share-based payment transactions in which the terms of the arrangement provide either the entity or the counterparty with the choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments, the entity shall account for that transaction, or the components of that transaction, as a cash-settled share-based payment transaction if, and to the extent that, the entity has incurred a liability to settle in cash or other assets, or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred. An entity shall apply the procedures in IFRS 2 paragraphs 35–43 for measuring share-based payment transactions with cash alternatives.

Disclosure

25.8 An entity shall disclose a description of each type of share-based payment arrangement that existed at any time during the period, including the general

terms and conditions of each arrangement, such as vesting requirements, the maximum term of options granted, and the method of settlement (eg whether in cash or equity). An entity with substantially similar types of share based payment arrangements may aggregate this information.

25.9 An entity shall disclose the following information about the effect of share-based payment transactions on the entity's profit or loss for the period and on its financial position, including at least the following:

(a) the total expense recognised for the period arising from share-based payment transactions in which the goods or services received did not qualify for recognition as assets and hence were recognised immediately as an expense, including separate disclosure of that portion of the total expense that arises from transactions accounted for as equity settled share based payment transactions;

(b) with respect to liabilities arising from share-based payment transactions:

(i) the total carrying amount at the end of the period; and

(ii) the total intrinsic value at the end of the period of liabilities for which the counterparty's right to cash or other assets had vested by the end of the period (eg vested share appreciation rights).

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SECTION 26 IMPAIRMENT OF NON-FINANCIAL ASSETS

26.1 This section shall be applied in accounting for the **IMPAIRMENT** of all assets, other than the following, for which other sections of this IFRS provide guidance for recognition of impairment:

(a) deferred tax assets (see Section 28 *Income Taxes*).

(b) assets arising from employee benefits (see Section 27 *Employee Benefits*).

(c) financial assets that are within the scope of Section 11 *Financial Assets and Financial Liabilities*.

(d) investment property that is measured at fair value (see Section 15 *Investment Property*).

(e) biological assets related to agricultural activity that are measured at fair value less estimated point-of-sale costs (see Section 35 *Specialised Industries*).

Impairment of inventories

Selling price less costs to complete and sell

26.2 An entity shall assess at each reporting date whether any inventories are impaired. The entity shall make the assessment by comparing the **CARRYING AMOUNT** of each item of inventory (or group of similar items—see paragraph 26.3) with its selling price less costs to complete and sell. If an item of inventory (or group) is impaired, the entity shall recognise a loss in profit or loss for the difference between carrying amount and the selling price less costs to complete and sell.

26.3 If it is not practicable to write inventories down to selling price less costs to complete and sell item by item, the entity may group items of inventory relating to the same product line that have similar purposes or end uses, are produced and marketed in the same geographical area for the purpose of assessing impairment.

Reversal of write-down

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26.4 An entity shall make a new assessment of selling price less costs to complete and sell in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling price less costs to complete and sell because of changed economic circumstances, the entity shall reverse the amount of the write-down (ie the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised selling price less costs to complete and sell.

Impairment of non-financial assets other than inventories

Indicators of impairment

26.5 An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the fair value less costs to sell of the asset. If there is no indication of impairment, it is not necessary to estimate the fair value less costs to sell. This section uses the term 'an asset' but sometimes fair value less costs to sell must be estimated for a group of assets (see paragraph 26.9).

26.6 In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information

(a) during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.

(b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.

(c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's fair value less costs to sell materially.

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(d) the carrying amount of the net assets of the entity is more than its market capitalisation.

Internal sources of information

(e) evidence is available of obsolescence or physical damage of an asset.

(f) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.

(g) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected. In this context economic performance includes operating results and cash flows.

26.7 If there is an indication that an asset may be impaired, this may indicate that the entity should review the remaining useful life, the depreciation (amortisation) method or the residual value for the asset and adjust it in accordance with the section of this IFRS applicable to the asset, even if no impairment loss is recognised for the asset.

Measuring fair value less costs to sell

26.8 Fair value less costs to sell is the amount obtainable from the sale of an asset or group of assets in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

26.9 If an entity cannot estimate fair value for an individual asset, the entity shall measure the fair value less costs to sell the group of assets to which the asset belongs. For this purpose, fair value less costs to sell shall be estimated for the smallest identifiable group of assets

(a) that includes the asset for which impairment is indicated and

(b) whose fair value less costs to sell can be estimated.

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Fair value less costs to sell

26.10 An entity shall determine fair value less costs to sell based on the following hierarchy of reliability of evidence:

(a) A price in a binding sale agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset.

(b) If there is no binding sale agreement but an asset is traded in an active market, fair value less costs to sell is the asset's market price less the costs of disposal—usually based on the current bid price.

(c) When current bid prices are unavailable, the price of the most recent transaction may provide a basis from which to estimate fair value less costs to sell.

(d) If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount that an entity could obtain, at the end of the reporting period, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In determining this amount, an entity considers the outcome of recent transactions for similar assets within the same industry. Fair value less costs to sell does not reflect a forced sale, unless management is compelled to sell immediately.

Recognition of an impairment loss

26.11 When the fair value less costs to sell of an asset (or a group of assets—see paragraph 26.9) is less than its carrying amount, the entity shall reduce the carrying amount of the asset to its fair value less costs to sell. That reduction is an impairment loss.

26.12 An entity shall recognise an impairment loss immediately in profit or loss.

26.13 When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an entity shall recognise a liability only if that is required by this IFRS.

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26.14 After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

26.15 An entity shall assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the fair value less costs to sell of that asset. Indications that an impairment loss may have decreased or may no longer exist are generally the opposite of those set out in paragraph 26.6.

26.16 If the estimated fair value less costs to sell exceeds the carrying amount of the asset, the entity shall increase the carrying amount to fair value less costs to sell, except as described in paragraph 26.17. That increase is a reversal of an impairment loss.

26.17 The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

26.18 An entity shall recognise a reversal of an impairment loss for an asset other than goodwill immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another section of this IFRS (for example, the revaluation model in Section 16). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with the revaluation model.

26.19 After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Special requirements for impairment of goodwill

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26.20 Goodwill, by itself, cannot be sold. Nor does it generate cash flows to an entity that are independent of the cash flows of other assets. As a consequence, the fair value of goodwill cannot be measured directly. Therefore, the fair value of goodwill must be derived from measurement of the fair value of the larger group of assets of which the goodwill is a part.

26.21 The principles in paragraphs 26.5–26.14 for recognising and measuring impairment of assets apply to goodwill. Therefore, at each reporting date the entity shall assess whether there is any indication that goodwill may be impaired. In addition to considering the indicators of impairment in paragraph 26.6, the entity shall also consider whether:

(a) since acquisition, the acquired entity to which the goodwill relates has performed significantly worse than expected;

(b) the acquired entity to which the goodwill relates is being restructured, held for sale, or abandoned; or

(c) significant impairment losses have been recognised for other assets of the acquired entity to which the goodwill relates.

26.22 If there is an indication that goodwill has been impaired the entity shall follow a two-step process to determine whether to recognise an impairment loss:

Step 1:

(a) allocate the goodwill to the component(s) of the entity that benefit from the goodwill (generally the lowest level within the entity at which the goodwill is monitored for internal management purposes);

(b) measure the fair value of each component in its entirety, including the goodwill;

(c) compare the fair value of the component with the carrying amount of the component;

(d) if the fair value of the component equals or exceeds its carrying amount, neither the component nor the goodwill is impaired; if the fair value of the component is less than its carrying amount, the difference is an impairment loss that shall be recognised in accordance with Step 2.

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Step 2:

(a) determine the fair values of the identifiable assets and liabilities, including contingent liabilities, of the component in accordance with the principles in paragraphs 18.13–18.19 of Section 18 *Business Combinations*;

(b) determine the fair value of the goodwill as the difference between the sum of the fair values in Step 2(a) and the fair value of the component in Step 1(b);

(c) write down the goodwill to its fair value and recognise an impairment loss in profit or loss;

(d) if the amount of the loss determined in Step 1(d) exceeds the carrying amount of the goodwill, the excess shall be recognised as an impairment loss in profit or loss. That excess shall be allocated to the identifiable non-cash assets and liabilities, including contingent liabilities, of the component on the basis of their relative fair values.

26.23 If there is a minority interest in the component to which goodwill has been allocated, the carrying amount of that unit comprises:

(a) both the parent's interest and the minority interest in the identifiable net assets of the unit; and

(b) the parent's interest in goodwill.

However, part of the fair value of the component determined in accordance with Step 1(b) is attributable to the minority interest in goodwill. Consequently, any impairment loss relating to the goodwill (Step 2(c)) is apportioned between that attributable to the parent and that attributable to the minority interest, with only the former being recognised as a goodwill impairment loss.

26.24 An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

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Disclosure

26.25 An entity shall disclose the following for each class of assets:

(a) the amount of impairment losses recognised in profit or loss during the period and the line item(s) of the income statement in which those impairment losses are included.

(b) the amount of reversals of impairment losses recognised in profit or loss during the period and the line item(s) of the income statement in which those impairment losses are reversed.

(c) the amount of impairment losses on revalued assets recognised directly in equity during the period.

(d) the amount of reversals of impairment losses on revalued assets recognised directly in equity during the period.

26.26 An entity shall disclose the following information for the aggregate impairment losses and the aggregate reversals of impairment losses recognised during the period for which no separate information is disclosed:

(a) the main classes of assets affected by impairment losses and the main classes of assets affected by reversals of impairment losses.

(b) the main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.

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SECTION 27 EMPLOYEE BENEFITS

27.1 **EMPLOYEE BENEFITS** are all forms of consideration given by an entity in exchange for service rendered by employees, including directors and management. This section applies to four types of employee benefits:

(a) short-term employee benefits, which are employee benefits (other than termination benefits) that are due wholly within twelve months after the end of the period in which the employees render the related service;

(b) post-employment benefits, which are employee benefits (other than termination benefits) that are payable after the completion of employment;

(c) other long-term employee benefits, which are employee benefits (other than post-employment benefits and termination benefits) that are not due wholly within twelve months after the end of the period in which the employees render the related service; and

(d) termination benefits, which are employee benefits payable as a result of either:

(i) an entity's decision to terminate an employee's employment before the normal retirement date; or

(ii) an employee's decision to accept voluntary redundancy in exchange for those benefits.

27.2 Employee benefits also include **SHARE-BASED PAYMENTS** either in the form of equity instruments (such as shares or share options) or cash or other assets of the entity in amounts that are based on the price of the entity's shares or other equity instruments of the entity, provided the specified vesting conditions, if any, are met. An entity shall apply Section 25 *Share-based Payment* in accounting for share-based payments.

General recognition principle for all employee benefits

27.3 An entity shall recognise the cost of all employee benefits to which its employees have become entitled as a result of service rendered to the entity during the period:

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(a) as a liability, after deducting amounts that have been paid either directly to the employees or as a contribution to an employee benefit fund. If the contribution paid exceeds the obligation arising from service before the balance sheet date, an entity shall recognise that excess as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(b) as an expense, unless the cost:

  (i) is included in the cost of producing inventories in accordance with Section 12 *Inventories*; or

  (ii) is included in the cost of property, plant and equipment in accordance with Section 16 *Property, Plant and Equipment.*

Short-term employee benefits

Examples

27.4 Short-term employee benefits include items such as:

(a) wages, salaries and social security contributions;

(b) short-term compensated absences (such as paid annual leave and paid sick leave) when the absences are expected to occur within twelve months after the end of the period in which the employees render the related employee service;

(c) profit-sharing and bonuses payable within twelve months after the end of the period in which the employees render the related service; and

(d) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.

Measurement of short-term benefits generally

27.5 When an employee has rendered service to an entity during the reporting period, the entity shall measure the amounts recognised in accordance with paragraph 27.3 at the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

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Recognition and measurement—short-term compensated absences

27.6 Some short-term compensated absences accumulate. Examples include annual vacation leave and sick leave that can be carried forward and used in future periods if the employee does not use the current period's entitlement in full. An entity shall recognise the expected cost of **ACCUMULATING COMPENSATED ABSENCES** when the employees render service that increases their entitlement to future compensated absences. The entity shall measure the expected cost of accumulating compensated absences at the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period. The entity shall present the unused accumulating compensated absences that are expected to be used as a **CURRENT LIABILITY** at the balance sheet date.

27.7 An entity shall recognise the cost of other (non-accumulating) compensated absences when the absences occur. The entity shall measure the cost of non-accumulating compensated absences at the undiscounted amount of salaries and wages paid or payable for the period of absence.

Recognition—profit-sharing and bonus plans

27.8 An entity shall recognise the expected cost of profit-sharing and bonus payments only when:

(a) the entity has a present legal or **CONSTRUCTIVE OBLIGATION** to make such payments as a result of past events (this means that the entity has no realistic alternative but to make the payments), and

(b) a reliable estimate of the obligation can be made.

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Post-employment benefits: distinction between defined contribution plans and defined benefit plans

27.9 **POST-EMPLOYMENT BENEFITS** include, for example:

(a) retirement benefits, such as pensions, and

(b) other post-employment benefits, such as post-employment life insurance and post-employment medical care.

Arrangements whereby an entity provides post-employment benefits are **POST-EMPLOYMENT BENEFIT PLANS**. An entity shall apply this section to all such

arrangements whether or not they involve the establishment of a separate entity to receive contributions and to pay benefits.

27.10 Post-employment benefit plans are classified as either **DEFINED CONTRIBUTION PLANS** or **DEFINED BENEFIT PLANS**, depending on the economic substance of the plan as derived from its principal terms and conditions.

(a) Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurer, together with investment returns arising from the contributions.

(b) Defined benefit plans are post-employment benefit plans other than defined contribution plans. Under defined benefit plans, the entity's obligation is to provide the agreed benefits to current and former employees, and actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience is worse than expected, the entity's obligation may be increased.

Multi-employer plans and state plans

27.11 Multi-employer plans and state plans are classified as defined contribution plans or defined benefit plans on the basis of the terms of the plan, including any constructive obligation that goes beyond the formal terms. However, if sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, an entity shall:

(a) account for the plan in accordance with paragraph 27.13 as if it were a defined contribution plan; and

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(b) disclose the fact that it is a defined benefit plan and the reason why it is being accounted for as a defined contribution plan, along with any available information about the plan's surplus or deficit and the implications, if any, for the entity.

Insured benefits

27.12 An entity may pay insurance premiums to fund a post-employment benefit plan. The entity shall treat such a plan as a defined contribution plan unless the entity has a legal or constructive obligation either:

(a) to pay the employee benefits directly when they become due, or

(b) to pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.

A constructive obligation could arise indirectly through the plan, through the mechanism for setting future premiums, or through a related party relationship with the insurer. If the entity retains such a legal or constructive obligation, the entity shall treat the plan as a defined benefit plan.

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Post-employment benefits: defined contribution plans

Recognition and measurement

27.13 The entity shall recognise the contribution payable for a period:

(a) as a liability, after deducting any amount already paid. If contribution payments exceed the contribution due for service before the balance sheet date, an entity shall recognise that excess as an asset.

(b) as an expense, unless the cost:

  (i) is included in the cost of producing inventories in accordance with Section 12; or

  (ii) is included in the cost of property, plant and equipment in accordance with Section 16.

Post-employment benefits: defined benefit plans

Recognition

27.14 In applying the general recognition principle in paragraph 27.3 to defined benefit plans, an entity:

(a) recognises a liability for its obligations under defined benefit plans net of plan assets—its 'defined benefit liability' (see paragraphs 27.15–27.20); and

(b) recognises the net change in that liability during the period as the cost of its defined benefit plans during the period (see paragraphs 27.21–27.25).

Measurement of the defined benefit liability

27.15 An entity shall measure a **DEFINED BENEFIT LIABILITY** for its obligations under defined benefit plans at the net total of the following amounts:

(a) the present value of its obligations under defined benefit plans (its **DEFINED BENEFIT OBLIGATION**) at the balance sheet date (paragraph 27.17 provides guidance on discounting), minus

(b) the fair value at the balance sheet date of **PLAN ASSETS** (if any) out of which the obligations are to be settled directly.

27.16 The present value of an entity's obligations under defined benefit plans at the balance sheet date shall reflect the estimated amount of benefit that employees have earned in return for their service in the current and prior periods. This requires the entity to determine how much benefit is attributable to the current and prior periods on the basis of the plan's benefit formula and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that influence the cost of the benefit. The actuarial assumptions shall be unbiased (neither imprudent nor excessively conservative), mutually compatible, and selected to lead to the best estimate of the future cash flows that will arise under the plan.

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Discounting

27.17 An entity shall measure its defined benefit obligation on a discounted present value basis. The entity shall determine the rate used to discount the future payments by reference to market yields at the balance sheet date on high quality corporate bonds. In countries where there is no deep market in such bonds, the entity shall use the market yields (at the balance sheet date) on government bonds. The currency and term of the corporate bonds or

government bonds shall be consistent with the currency and estimated period of the future payments.

Actuarial valuation method

27.18 An entity shall use the **PROJECTED UNIT CREDIT METHOD** to determine its defined benefit obligations and the related current service cost and, when applicable, past service cost.

Plan introductions, changes, curtailments, and settlements

27.19 If a defined benefit plan has been introduced or changed in the current period, the entity shall increase or decrease its defined benefit liability to reflect the change, and shall recognise the increase (decrease) as an expense (income) in measuring profit or loss. Conversely, if a plan has been curtailed (ie benefits or group of covered employees are reduced) or settled (the employer's obligation is completely discharged), the defined benefit obligation shall be decreased or eliminated, and the entity shall recognise the resulting gain or loss in profit or loss.

Defined benefit plan asset

27.20 If the defined benefit liability at the balance sheet date is less than the fair value of plan assets at that date, the plan has a surplus. An entity shall recognise a plan surplus as a defined benefit plan asset only to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Cost of a defined benefit plan

27.21 An entity shall recognise the net change in its defined benefit liability during the period, other than a change attributable to benefits paid to employees during the period, as the cost of its defined benefit plans during the period. That cost is recognised in profit or loss, unless:

(a) it is included in the cost of producing inventories in accordance with Section 12; or

(b) it is included in the cost of property plant and equipment in accordance with Section 16.

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27.22 The net change in the defined benefit liability that is recognised as the cost of a defined benefit plan includes:

(a) the change in the defined benefit liability arising from employee service rendered during the current period;

(b) interest on the defined benefit obligation during the current period;

(c) the returns on any plan assets and the net change in the fair value of recognised reimbursement rights (see paragraph 27.27);

(d) actuarial gains and losses;

(e) increases or decreases in the defined benefit liability resulting from introducing a new plan or changing an existing plan in the current period (see paragraph 27.19); and

(f) decreases in the defined benefit liability resulting from curtailing or settling an existing plan in the current period (see paragraph 27.19).

27.23 Employee service gives rise to an obligation under a defined benefit plan even if the benefits are conditional on future employment (in other words they are not **VESTED**). Employee service before the vesting date gives rise to a constructive obligation because, at each successive balance sheet date, the amount of future service that an employee will have to render before becoming entitled to the benefit is reduced. In measuring its defined benefit obligation, an entity considers the probability that some employees may not satisfy vesting requirements. Similarly, although some post-employment benefits, for example, post-employment medical benefits, become payable only if a specified event occurs when an employee is no longer employed, an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. The probability that the specified event will occur affects the measurement of the obligation, but does not determine whether the obligation exists.

27.24 If defined benefits are based on future salaries, an entity shall measure its defined benefit obligations on a basis that reflects estimated future salary increases.

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27.25 If defined benefits are reduced for amounts that will be paid to employees under government-sponsored plans, an entity shall measure its defined benefit obligations on a basis that reflects the benefits payable under the government plans but only:

(a) if those plans were enacted before the balance sheet date; or

(b) if past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Recognition of actuarial gains and losses

27.26 In measuring its defined benefit liability, an entity shall recognise all of its actuarial gains and losses in profit or loss when they occur unless the defined benefit cost is:

(a) included in the cost of producing inventories in accordance with Section 12*;* or

(b) included in the cost of property plant and equipment in accordance with Section 16.

Reimbursements

27.27 If an entity is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the entity shall recognise its right to reimbursement as a separate asset. The entity shall measure the asset at fair value. In the income statement, the expense relating to a defined benefit plan may be presented net of the amount recognised for a reimbursement.

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Other long-term employee benefits

27.28 Other long-term employee benefits include, for example:

(a) long-term compensated absences such as long-service or sabbatical leave;

(b) jubilee or other long-service benefits;

(c) long-term disability benefits;

(d) profit-sharing and bonuses payable twelve months or more after the end of the period in which the employees render the related service; and

(e) deferred compensation paid twelve months or more after the end of the period in which it is earned.

27.29 An entity shall recognise a liability for other long-term employee benefits measured at the net total of the following amounts:

(a) the present value of the benefit obligation at the balance sheet date, minus

(b) the fair value at the balance sheet date of plan assets (if any) out of which the obligations are to be settled directly.

An entity shall recognise actuarial gains and losses when they occur in accordance with paragraph 27.26. An entity shall recognise the effects of any plan introductions, changes, curtailments or settlements when they occur in accordance with the principles in paragraph 27.19.

Termination benefits

27.30 An entity may be committed, by legislation, by contractual or other agreements with employees or their representatives or by a constructive obligation based on business practice, custom or a desire to act equitably, to make payments (or provide other benefits) to employees when it terminates their employment. Such payments are **TERMINATION BENEFITS**.

Recognition

27.31 Because termination benefits do not provide an entity with future economic benefits, an entity shall recognise them as an expense in profit or loss immediately.

27.32 When an entity recognises termination benefits, the entity may also have to account for a curtailment of retirement benefits or other employee benefits.

27.33 An entity shall recognise termination benefits as a liability and an expense only when the entity is demonstrably committed either:

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(a) to terminate the employment of an employee or group of employees before the normal retirement date; or

(b) to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

27.34 An entity is demonstrably committed to a termination only when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal from the plan.

Measurement

27.35 An entity shall measure termination benefits at the best estimate of the expenditure that would be required to settle the obligation at the balance sheet date. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

27.36 When termination benefits are due more than 12 months after the end of the reporting period, they shall be measured at their discounted present value.

Disclosure

Disclosures about short-term employee benefits

27.37 This section does not require specific disclosures about short-term employee benefits.

Disclosures about defined contribution plans

27.38 An entity shall disclose the total cost of defined contribution plans for the period and their amounts (a) recognised in profit or loss as an expense and (b) included in the cost of an asset.

Disclosures about defined benefit plans

27.39 An entity shall disclose the following information about defined benefit plans:

(a) a general description of the type of plan, including funding policy;

(b) the entity's accounting policy for recognising actuarial gains and losses and the amount of actuarial gains and losses recognised during the period;

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(c) a reconciliation of opening and closing balances of the defined benefit liability showing separately benefits paid and all other changes;

(d) an analysis of the defined benefit liability into amounts arising from plans that are wholly unfunded and amounts arising from plans that are wholly or partly funded;

(e) a reconciliation of the opening and closing balances of the fair value of plan assets and of the opening and closing balances of any reimbursement right recognised as an asset, showing separately, if applicable:

   (i) contributions by the employer;

   (ii) contributions by plan participants;

   (iii) benefits paid; and

   (iv) other changes in plan assets.

(f) the total cost relating to defined benefit plans recognised in profit or loss as an expense for the period, and the line item(s) in which they are included;

(g) the total cost relating to defined benefit plans during the period that was:

   (i) included in the cost of producing inventories in accordance with Section 12; or

   (ii) included in the cost of property plant and equipment in accordance with Section 16;

(h) for each major category of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major category constitutes of the fair value of the total plan assets;

(i) the amounts included in the fair value of plan assets for:

   (i) each category of the entity's own financial instruments; and

   (ii) any property occupied by, or other assets used by, the entity;

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(j) the actual return on plan assets; and

(k) the principal actuarial assumptions used, including, when applicable:

  (i) the discount rates;

  (ii) the expected rates of return on any plan assets for the periods presented in the financial statements;

  (iii) the expected rates of salary increases; and

  (iv) medical cost trend rates.

Disclosures about other long-term benefits

27.40 For each category of other long-term benefits that an entity provides to its employees, the entity shall disclose the nature of the benefit, the amount of its obligation and the funding status at the balance sheet date, and the amount of any actuarial gains and losses arising in the current period and its accounting policy for such actuarial gains and losses.

Disclosures about termination benefits

27.41 For each category of termination benefits that an entity provides to its employees, the entity shall disclose the nature of the benefit, its accounting policy, and the amount of its obligation and the funding status at the balance sheet date.

27.42 When there is uncertainty about the number of employees who will accept an offer of termination benefits, a contingent liability exists. Section 20 *Provisions and Contingencies* requires an entity to disclose information about its contingent liability unless the possibility of an outflow in settlement is remote.

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SECTION 28 INCOME TAXES

28.1 For the purposes of this IFRS, **INCOME TAXES** include all domestic and foreign taxes that are based on **TAXABLE PROFITS**. Income taxes also include taxes, such as withholding taxes, that are payable by a subsidiary, associate or joint venture on distributions to the reporting entity.

28.2 This section requires an entity to recognise the current and future tax consequences of transactions and other events that have been recognised in the financial statements. Current tax liabilities and assets are recognised for **CURRENT TAX** payable or current tax recoverable. **DEFERRED TAX LIABILITIES** and **DEFERRED TAX ASSETS** are recognised for the tax consequences of the future recovery or settlement of the entity's assets and liabilities at their current **CARRYING AMOUNTS**, with limited exceptions, and for unused tax losses and unused tax credits.

Tax basis

28.3 **TAX BASIS** is the measurement, under applicable existing tax law, of an asset, liability or equity instrument. That asset, liability, or equity instrument may be recognised for both tax and financial reporting purposes, for tax purposes but not for financial reporting, or for financial reporting purposes but not for tax. Stated another way, the tax basis of an asset or liability is the amount that would be recognised if a balance sheet were created using tax law as the basis for accounting.

Temporary differences

28.4 **TEMPORARY DIFFERENCES** are differences between the tax basis of an asset or liability and its carrying amount in the financial statements that will result in a taxable or deductible amount when the carrying amount of the asset or liability is recovered or settled. Temporary differences may be either taxable or deductible:

(a) **TAXABLE TEMPORARY DIFFERENCES** are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.

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(b) **DEDUCTIBLE TEMPORARY DIFFERENCES** are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.

Temporary differences that are timing differences

28.5 Some temporary differences arise when income or expense is included in accounting profit or loss in one period but is included in taxable profit in a different period. Such temporary differences are often described as **TIMING DIFFERENCES**.

Timing differences—examples

28.6 A timing difference results in a deferred tax asset when:

(a) An expenditure is deductible for tax purposes later than when it is recognised as an expense for financial reporting purposes. For example:

(i) pension or other employee benefit cost is recognised as an expense over the periods of employee service, but is deductible for tax purposes only in future periods when contributions or payments are made.

(ii) warranty expense is recognised when the related sales are made, but is deductible for tax purposes only when paid.

(iii) a tax loss cannot be offset against past or current period taxable profits, but can be carried forward to reduce future taxable profits.

(iv) bad debts expense is recognised when the accounts receivable are estimated to be uncollectible, but is tax-deductible only when a customer enters formal bankruptcy proceedings.

(b) Income is recognised earlier for tax purposes than for financial reporting purposes. For example:

(i) advance payments received from customers are taxed on a cash basis, but do not yet qualify for recognition as revenue.

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(ii) intragroup profits in inventories, unrealised at the group level, are reversed on consolidation.

(iii) a gain is recognised for tax purposes on the sale of a financial asset carried at amortised cost, but the transaction does not qualify for recognition as a sale for financial reporting purposes.

28.7 A timing difference results in a deferred tax liability when:

(a) income is taxable later than when it is recognised for financial reporting purposes. For example:

(i) an increase in the fair value of an asset is recognised in profit or loss or in equity, but that increase is taxable only when the asset is sold.

(ii) for accounting purposes revenue is recognised by reference to the stage of completion of a contract or transaction (sometimes referred to as the percentage of completion method), but for tax purposes revenue is taxable only when the contract or transaction is completed.

(iii) the unremitted earnings of subsidiaries, associates and joint ventures are recognised in profit or loss but will be subject to further taxation only when remitted to the parent.

(b) an expense is deductible earlier for tax purposes than it is charged to expense for financial reporting purposes. For example:

(i) depreciation that is deducted in measuring current taxable income will be recognised as an expense in future periods in measuring profit or loss.

(ii) borrowing costs or development costs are recognised in the cost of an asset but are tax deductible when incurred.

Other temporary differences that are not timing differences

28.8 Some temporary differences are not timing differences. Such temporary differences can arise:

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(a) when gains and losses are recognised outside accounting profit or loss in one period but are recognised in taxable profit in a different period.

(b) on the initial recognition of assets and liabilities, either in a business combination or outside a business combination.

(c) because of changes in the tax basis of an asset or liability that do not affect taxable profit of the period.

Goodwill

28.9 If the carrying amount of goodwill arising in a business combination differs from its tax basis, there is a temporary difference. The deferred tax asset or liability arising from the initial recognition of goodwill is recognised as part of the accounting for a business combination.

Temporary differences in consolidated financial statements

28.10 In consolidated financial statements, there are two sources of temporary difference:

(a) differences between the carrying amounts of the individual assets and liabilities in the consolidated financial statements and their tax basis in the tax jurisdiction of the individual group entity. These temporary differences are sometimes described as 'inside basis differences'.

(b) differences between the carrying amount of the investment of the parent or investor in its subsidiary, associate and joint venture and the tax base of that investment in the tax jurisdiction of the investor. These temporary differences are often described as 'outside basis differences'.

28.11 In those jurisdictions in which a consolidated tax return is filed, the tax basis is determined by reference to the consolidated tax return. In other jurisdictions, the tax basis is determined by reference to the tax returns of each entity in the group.

Recognition of current tax liabilities and current tax assets

28.12 An entity shall recognise a liability for unpaid current tax for current and prior periods. If the amount already paid for current and prior periods exceeds the amount due for those periods, the entity shall recognise the excess as an asset.

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28.13 An entity shall recognise an asset for the benefit relating to a tax loss that can be carried back to recover current tax of a previous period.

Recognition of deferred tax liabilities and deferred tax assets

Taxable temporary differences

28.14 An entity shall recognise a deferred tax liability for all taxable temporary differences, except as specified in paragraph 28.16 in relation to taxable temporary differences associated with investments in subsidiaries and interests in joint ventures.

Deductible temporary differences, unused tax losses and unused tax credits

28.15 An entity shall recognise a deferred tax asset for:

(a) all deductible temporary differences, except as specified in paragraph 28.16 in relation to deductible temporary differences associated with investments in subsidiaries and interests in joint ventures.

(b) the carryforward of unused tax losses and unused tax credits.

(c) differences between:

(i) amounts that an entity initially recognises as the cost or other carrying amount of an asset or liability, and

(ii) the amounts relating to that asset or liability that are expected to be deductible or includible in taxable income in future periods.

Such differences can arise in business combinations or on the initial acquisition of individual assets or liabilities. For example, a deferred tax asset or liability is recognised when the amount allocated to an asset acquired in a business combination is its fair value at the acquisition date, but the future tax deductibility is limited by law to the acquired entity's original cost basis.

Exceptions to the general principles for recognising deferred taxes

28.16 The following are exceptions to the general principles for recognition of deferred taxes in paragraph 28.14–28.15:

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(a) An entity shall recognise a deferred tax asset only to the extent that it is **PROBABLE** that there will be sufficient future taxable profit to enable recovery of the deferred tax asset.

(b) An entity shall not recognise deferred tax expense (income) or a related deferred tax liability (asset) for temporary differences associated with unremitted earnings from foreign subsidiaries, foreign associates and interests in joint ventures, unless it is probable that the timing difference will reverse in the foreseeable future.

(c) An entity shall recognise changes in a deferred tax liability or deferred tax asset directly in equity, rather than in profit or loss, if the income or expense that gave rise to the timing difference was recognised directly in equity.

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Measurement

Measurement of current tax liabilities (assets)

28.17 An entity shall measure current tax liabilities (assets) for the current and prior periods, and related **TAX EXPENSE (INCOME)**, at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Measurement of deferred tax liabilities (assets)

28.18 An entity shall measure deferred tax assets and liabilities, and related tax expense (income), at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Discounting

28.19 Although deferred tax assets and deferred tax liabilities give rise to future cash flows, an entity shall not discount them to reflect the time value of money.

Which tax rate to use

28.20 When different tax rates apply to different levels of taxable income, an entity shall measure deferred tax expense (income) and related deferred tax liabilities

(assets) using the average enacted or substantively enacted rates that it expects to be applicable to the taxable profit (tax loss) of the periods in which it expects the temporary differences to reverse.

28.21 The measurement of deferred tax expense (income) and related deferred tax liabilities (assets) shall reflect the tax consequences that would follow from the nature of the related timing difference. For example, if the temporary difference arises from an item of income that is expected to be taxable as a capital gain in a future period, the deferred tax expense is measured using the capital gain tax rate.

28.22 In some jurisdictions, income taxes are payable at a higher or lower rate if part or all of the profit or retained earnings is paid out as a dividend to shareholders of the entity. In other jurisdictions, income taxes may be refundable or payable if part or all of the profit or retained earnings is paid out as a dividend to shareholders of the entity. In those circumstances, an entity shall measure current and deferred taxes at the tax rate applicable to undistributed profits until the entity recognises a liability to pay a dividend. When the entity recognises a liability to pay a dividend, it shall recognise the resulting current or deferred tax liability (asset), and the related tax expense (income).

Review of deferred tax assets

28.23 An entity shall review the carrying amount of a deferred tax asset at each balance sheet date. An entity shall reduce the carrying amount of a deferred tax asset and increase tax expense to the extent that it is no longer probable that sufficient taxable profit will be available to allow recovery of the deferred tax asset. The entity shall reverse that reduction to the extent that it subsequently becomes probable that sufficient taxable profit will be available.

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Withholding tax on dividends

28.24 When an entity pays dividends to its shareholders, it may be required to pay a portion of the dividends to taxation authorities on behalf of shareholders. Such an amount paid or payable to taxation authorities is recognised in equity as a part of the dividends.

Disclosure

28.25 An entity shall disclose separately the major components of tax expense (income). Such components of tax expense (income) may include:

(a) current tax expense (income);

(b) any adjustments recognised in the period for current tax of prior periods;

(c) the amount of deferred tax expense (income) relating to the origination and reversal of timing differences;

(d) the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes;

(e) the amount of the benefit arising from a previously unrecognised tax loss, tax credit or timing difference of a prior period that is used to reduce current tax expense; and

(f) deferred tax expense (or income) arising from the write-down, or reversal of a previous write-down, of a deferred tax asset (see paragraph 28.23).

28.26 An entity shall disclose the following separately:

(a) the aggregate current and deferred tax relating to items that are recognised directly in equity;

(b) a numerical reconciliation between tax expense (income) as recognised and tax expense (income) that would be expected by multiplying profit by the applicable tax rate(s), with each significant difference disclosed separately;

(c) an explanation of changes in the applicable tax rate(s) compared with the previous accounting period;

(d) the amount (and expiry date, if any) of timing differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised; and

(e) the aggregate amount of timing differences associated with investments in subsidiaries, branches and associates and interests in

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joint ventures, for which deferred tax liabilities have not been recognised (see paragraph 28.16(b)).

28.27 In the circumstances described in paragraph 28.24, an entity shall disclose the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders. In addition, the entity shall disclose the amounts of the potential income tax consequences, if practicably determinable, and whether there are any potential income tax consequences not practicably determinable.

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SECTION 29 FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES

29.1 **HYPERINFLATION** is indicated by characteristics of the economic environment of a country. An economy is hyperinflationary if the cumulative inflation rate over three years is approaching, or exceeds, 100 per cent.

29.2 An entity whose functional currency is the currency of a hyperinflationary economy shall apply IAS 29 *Financial Reporting in Hyperinflationary Economies* in preparing and presenting its financial statements in accordance with this IFRS.

29.3 Briefly summarised, IAS 29 requires that the financial statements of an entity whose functional currency is the currency of a hyperinflationary economy should be stated in terms of the presentation currency as of the end of the reporting period. The corresponding figures for the previous period required by paragraph 3.12 and any information in respect of earlier periods shall also be stated in terms of the measuring unit current at the end of the reporting period. The gain or loss on the net monetary position shall be included in profit or loss and separately disclosed.

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SECTION 30 FOREIGN CURRENCY TRANSLATION

30.1 An entity may carry on foreign activities in two ways. It may have transactions in foreign currencies or it may have foreign operations. In addition, an entity may present its financial statements in a foreign currency. This section prescribes how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a **PRESENTATION CURRENCY**. Accounting for financial instruments denominated in a foreign currency and hedge accounting of foreign currency items is dealt with in Section 11 *Financial Instruments*.

Functional currency

30.2 Each entity shall identify its functional currency. **FUNCTIONAL CURRENCY** is the currency of the primary economic environment in which the entity operates.

30.3 The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. Therefore, the following are the most important factors an entity considers in determining its functional currency:

(a) the currency:

(i) that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and

(ii) of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.

(b) the currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

30.4 The following factors may also provide evidence of an entity's functional currency:

(a) the currency in which funds from financing activities (ie issuing debt and equity instruments) are generated.

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(b) the currency in which receipts from operating activities are usually retained.

30.5 The following additional factors are considered in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the reporting entity (the reporting entity, in this context, being the entity that has the foreign operation as its subsidiary, branch, associate or joint venture):

(a) whether the activities of the foreign operation are carried out as an extension of the reporting entity, rather than being carried out with a significant degree of autonomy. An example of the former is when the foreign operation only sells goods imported from the reporting entity and remits the proceeds to it. An example of the latter is when the operation accumulates cash and other monetary items, incurs expenses, generates income and arranges borrowings, all substantially in its local currency.

(b) whether transactions with the reporting entity are a high or a low proportion of the foreign operation's activities.

(c) whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting entity and are readily available for remittance to it.

(d) whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the reporting entity.

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Reporting foreign currency transactions in the functional currency

Initial recognition

30.6 A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency, including transactions arising when an entity:

(a) buys or sells goods or services whose price is denominated in a foreign currency;

(b) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or

(c) otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

30.7 An entity shall record a foreign currency transaction, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

30.8 The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with this IFRS. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

Reporting at the end of the subsequent reporting periods

30.9 At the end of each reporting period, an entity shall:

(a) translate foreign currency monetary items using the closing rate;

(b) translate non-monetary items that are measured in terms of historical cost in a foreign currency using the exchange rate at the date of the transaction; and

(c) translate non-monetary items that are measured at fair value in a foreign currency using the exchange rates at the date when the fair value was determined.

30.10 An entity shall recognise, in profit or loss in the period in which they arise, exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements, except as described in paragraph 30.13.

30.11 When a gain or loss on a non-monetary item is recognised directly in equity, an entity shall recognise any exchange component of that gain or loss directly in equity. Conversely, when a gain or loss on a non-monetary item is

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recognised in profit or loss, an entity shall recognise any exchange component of that gain or loss in profit or loss.

Net investment in a foreign operation

30.12 An entity may have a monetary item that is receivable from or payable to a foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation, and is accounted for in accordance with paragraph 30.13. Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables.

30.13 Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation shall be recognised in profit or loss in the separate financial statements of the reporting entity or the individual financial statements of the foreign operation, as appropriate. In the financial statements that include the foreign operation and the reporting entity (eg consolidated financial statements when the foreign operation is a subsidiary, associate or joint venture), such exchange differences shall be recognised initially in a separate component of equity and recognised in profit or loss on disposal of the net investment in accordance with paragraph 30.24.

Change in functional currency

30.14 When there is a change in an entity's functional currency, the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.

30.15 As noted in paragraph 30.2, the functional currency of an entity reflects the underlying transactions, events and conditions that are relevant to the entity. Accordingly, once the functional currency is determined, it can be changed only if there is a change to those underlying transactions, events and conditions. For example, a change in the currency that mainly influences the sales prices of goods and services may lead to a change in an entity's functional currency.

30.16 The effect of a change in functional currency is accounted for prospectively. In other words, an entity translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated

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amounts for non-monetary items are treated as their historical cost. Exchange differences arising from the translation of a foreign operation previously classified in equity in accordance with paragraph 30.13 are not recognised in profit or loss until the disposal of the operation.

Use of a presentation currency other than the functional currency

Translation to the presentation currency

30.17 An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, the entity shall translate its results and financial position into the presentation currency. For example, when a group contains individual entities with different functional currencies, the results and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented.

30.18 An entity whose functional currency is not the currency of a hyperinflationary economy shall translate its results and financial position into a different presentation currency using the following procedures:

(a) assets and liabilities for each balance sheet presented (ie including comparatives) shall be translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each income statement (ie including comparatives) shall be translated at exchange rates at the dates of the transactions; and

(c) all resulting exchange differences shall be recognised as a separate component of equity.

30.19 For practical reasons, an entity may use a rate that approximates the exchange rates at the dates of the transactions, for example an average rate for the period, to translate income and expense items. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

30.20 The exchange differences referred to in paragraph 30.18(c) result from:

(a) translating income and expenses at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate. Such

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exchange differences arise both on income and expense items recognised in profit or loss and on those recognised directly in equity.

(b) translating the opening net assets at a closing rate that differs from the previous closing rate.

These exchange differences are not recognised in profit or loss because the changes in exchange rates have little or no direct effect on the present and future cash flows from operations. When the exchange differences relate to a foreign operation that is consolidated but not wholly-owned, accumulated exchange differences arising from translation and attributable to minority interests are allocated to, and recognised as part of, minority interest in the consolidated balance sheet.

30.21 An entity whose functional currency is the currency of a hyperinflationary economy shall translate its results and financial position into a different presentation currency using the procedures specified in IAS 21 paragraphs 42 and 43.

Translation of a foreign operation into the investor's presentation currency

30.22 In incorporating the results and financial position of a foreign operation with those of the reporting entity, the entity shall follow normal consolidation procedures, such as the elimination of intragroup balances and intragroup transactions of a subsidiary (see Section 9 *Consolidated Financial Statements* and Section 14 *Investments in Joint Ventures*). However, an intragroup monetary asset (or liability), whether short-term or long-term, cannot be eliminated against the corresponding intragroup liability (or asset) without showing the results of currency fluctuations in the consolidated financial statements. This is because the monetary item represents a commitment to convert one currency into another and exposes the reporting entity to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements of the reporting entity, an entity continues to recognise such an exchange difference in profit or loss or, if it arises from the circumstances described in paragraph 30.13, the entity shall classify it as equity until the disposal of the foreign operation.

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30.23 Any 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 shall be treated as assets and liabilities of the foreign operation. Thus, they shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraph 30.18.

Disposal of a foreign operation

30.24 On the disposal of a foreign operation, the cumulative amount of the exchange differences deferred in the separate component of equity relating to that foreign operation shall be recognised in profit or loss when the gain or loss on disposal is recognised.

Disclosure

30.25 In paragraphs 30.27 and 30.29, references to 'functional currency' apply, in the case of a group, to the functional currency of the parent.

30.26 An entity shall disclose:

(a) the amount of exchange differences recognised in profit or loss except for those arising on financial instruments measured at fair value through profit or loss in accordance with Section 11; and

(b) net exchange differences classified in a separate component of equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.

30.27 An entity shall disclose the currency in which the financial statements are presented. When the presentation currency is different from the functional currency, an entity shall state that fact and shall disclose the functional currency and the reason for using a different presentation currency.

30.28 When there is a change in the functional currency of either the reporting entity or a significant foreign operation, the entity shall disclose that fact and the reason for the change in functional currency.

30.29 When an entity displays its financial statements or other financial information in a currency that is different from either its functional currency or its

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presentation currency (for example, a 'convenience translation' of all amounts at closing rate), it shall:

(a) clearly identify the information as supplementary information to distinguish it from the information that complies with this IFRS;

(b) disclose the currency in which the supplementary information is displayed; and

(c) disclose the entity's functional currency and the method of translation used to determine the supplementary information.

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SECTION 31 SEGMENT REPORTING

31.1 An entity using this IFRS is not required to present **SEGMENT INFORMATION**. An entity that chooses to disclose segment information in accordance with IFRS 8 *Operating Segments* shall comply fully with the requirements of IFRS 8.

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SECTION 32 EVENTS AFTER THE END OF THE REPORTING PERIOD

32.1 Events after the end of the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. There are two types of events:

(a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the end of the reporting period); and

(b) those that are indicative of conditions that arose after the end of the reporting period (non-adjusting events after the end of the reporting period).

32.2. Events after the end of the reporting period include all events up to the date when the financial statements are authorised for issue, even if those events occur after the public announcement of profit or of other selected financial information.

Recognition and measurement

Adjusting events after the end of the reporting period

32.3 An entity shall adjust the amounts recognised in its financial statements, including related disclosures, to reflect adjusting events after the end of the reporting period.

32.4 The following are examples of adjusting events after the balance sheet date that require an entity to adjust the amounts recognised in its financial statements, or to recognise items that were not previously recognised:

(a) the settlement after the balance sheet date of a court case that confirms that the entity had a present obligation at the balance sheet date. The entity adjusts any previously recognised provision related to this court case in accordance with Section 20 *Provisions and Contingencies* or recognises a new provision. The entity does not merely disclose a contingent liability because the settlement provides additional evidence that would be considered in accordance with Section 20.

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(b) the receipt of information after the balance sheet date indicating that an asset was impaired at the balance sheet date, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted. For example:

  (i) the bankruptcy of a customer that occurs after the balance sheet date usually confirms that a loss existed at the balance sheet date on a trade receivable and that the entity needs to adjust the carrying amount of the trade receivable; and

  (ii) the sale of inventories after the balance sheet date may give evidence about their selling price at the balance sheet date.

(c) the determination after the balance sheet date of the cost of assets purchased, or the proceeds from assets sold, before the balance sheet date.

(d) the determination after the balance sheet date of the amount of profit-sharing or bonus payments, if the entity had a present legal or constructive obligation at the balance sheet date to make such payments as a result of events before that date (see Section 27 *Employee Benefits*).

(e) the discovery of fraud or errors that show that the financial statements are incorrect.

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Non-adjusting events after the end of the reporting period

32.5 An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the end of the reporting period.

32.6 An example of a non-adjusting event after the balance sheet date is a decline in market value of investments between the balance sheet date and the date when the financial statements are authorised for issue. The decline in market value does not normally relate to the condition of the investments at the balance sheet date, but reflects circumstances that have arisen subsequently. Therefore, an entity does not adjust the amounts recognised in its financial statements for the investments. Similarly, the entity does not update the

amounts disclosed for the investments as at the balance sheet date, although it may need to give additional disclosure under paragraph 32.11.

Dividends

32.7 If an entity declares dividends to holders of equity instruments after the end of the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period.

Going concern

32.8. An entity shall not prepare its financial statements on a going concern basis if management determines after the end of the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

32.9. Paragraph 3.2 requires management, when preparing financial statements, to assess an entity's ability to continue as a going concern. Financial statements shall be prepared on a **GOING CONCERN** basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. Paragraph 3.2 specifies required disclosures if:

(a) the financial statements are not prepared on a going concern basis; or

(b) management is aware of **MATERIAL** uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the end of the reporting period.

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Disclosure

Date of authorisation for issue

32.10 An entity shall disclose the date when the financial statements were authorised for issue and who gave that authorisation. If the entity's owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact.

Non-adjusting events after the end of the reporting period

32.11 An entity shall disclose the following for each material category of non-adjusting event after the end of the reporting period:

(a) the nature of the event; and

(b) an estimate of its financial effect, or a statement that such an estimate cannot be made.

32.12 The following are examples of non-adjusting events after the end of the reporting period that would generally result in disclosure:

(a) a major business combination after the end of the reporting period (Section 18 *Business Combinations* requires specific disclosures in such cases) or disposing of a major subsidiary;

(b) announcing a plan to discontinue an operation;

(c) major purchases of assets, classification of assets as held for sale in accordance with Section 16 *Property, Plant and Equipment*, other disposals of assets, or expropriation of major assets by government;

(d) the destruction of a major production plant by a fire after the end of the reporting period;

(e) announcing, or commencing the implementation of, a major restructuring (see Section 20 *Provisions and Contingencies*);

(f) major ordinary share transactions and potential ordinary share transactions after the end of the reporting period;

(g) abnormally large changes after the end of the reporting period in asset prices or foreign exchange rates;

(h) changes in tax rates or tax laws enacted or announced after the end of the reporting period that have a significant effect on current and deferred tax assets and liabilities (see Section 28 *Income Taxes*);

(i) entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees; and

(j) commencing major litigation arising solely out of events that occurred after the end of the reporting period.

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SECTION 33 RELATED PARTY DISCLOSURES

33.1 This section requires an entity to include in its financial statements the disclosures necessary to draw attention to the possibility that its financial position and profit or loss have been affected by the existence of **RELATED PARTIES** and by transactions and outstanding balances with such parties.

33.2 In considering each possible related party relationship, an entity shall assess the substance of the relationship and not merely the legal form.

33.3 In the context of this IFRS, the following are not necessarily related parties:

(a) two entities simply because they have a director or other member of key management personnel in common, notwithstanding (d) and (f) in the definition of 'related party'.

(b) two venturers simply because they share joint control over a joint venture.

(c) (i) providers of finance,

(ii) trade unions,

(iii) public utilities, and

(iv) government departments and agencies,

simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process).

(d) a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, merely by virtue of the resulting economic dependence.

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Disclosure

Disclosure of relationships

33.4 Relationships between parents and subsidiaries shall be disclosed irrespective of whether there have been transactions between those related parties. An entity shall disclose the name of the entity's parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the

name of the next most senior parent that does so (if any) shall also be disclosed.

Disclosure of key management personnel compensation

33.5 Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. Compensation includes all employee benefits (as defined in Section 27 *Employee Benefits*) including those in the form of share-based payment (see Section 25 *Share-based Payment*). Employee benefits include all forms of consideration paid, payable or provided by the entity, or on behalf of the entity (for example, by its parent or by a shareholder), in exchange for services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of the entity.

33.6 An entity shall disclose key management personnel compensation in total and for each of the following categories:

(a) short-term employee benefits;

(b) post-employment benefits;

(c) other long-term benefits;

(d) termination benefits; and

(e) share-based payment.

Disclosure of related party transactions

33.7 A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

33.8 If there have been transactions between related parties, an entity shall disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to the requirements in paragraph 33.6 to disclose key management personnel compensation. At a minimum, disclosures shall include:

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(a) the amount of the transactions;

(b) the amount of outstanding balances and:

(i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and

(ii) details of any guarantees given or received;

(c) provisions for doubtful debts related to the amount of outstanding balances; and

(d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.

33.9 An entity shall make the disclosures required by paragraph 33.8 separately for each of the following categories:

(a) the parent;

(b) entities with joint control or significant influence over the entity;

(c) subsidiaries;

(d) associates;

(e) joint ventures in which the entity is a venturer;

(f) key management personnel of the entity or its parent (in the aggregate); and

(g) other related parties.

33.10 The following are examples of transactions that are disclosed if they are with a related party:

(a) purchases or sales of goods (finished or unfinished);

(b) purchases or sales of property and other assets;

(c) rendering or receiving of services;

(d) leases;

(e) transfers of research and development;

(f) transfers under licence agreements;

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(g) transfers under finance arrangements (including loans and equity contributions in cash or in kind);

(h) provision of guarantees or collateral;

(i) settlement of liabilities on behalf of the entity or by the entity on behalf of another party; and

(j) participation by a parent or subsidiary in a defined benefit plan that shares risks between group entities.

33.11 An entity shall not state that related party transactions were made on terms equivalent to those that prevail in arm's length transactions unless such terms can be substantiated.

33.12 An entity may disclose items of a similar nature in the aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.

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SECTION 34 EARNINGS PER SHARE

34.1 An SME is not required to present amounts of earnings per share. However, an SME that discloses earnings per share shall calculate and disclose earnings per share in accordance with IAS 33 *Earnings per Share*.

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SECTION 35 SPECIALISED INDUSTRIES

Agriculture

35.1 An entity using this IFRS that is engaged in **AGRICULTURAL ACTIVITY** shall determine, for each of its **BIOLOGICAL ASSETS,** whether the fair value of that biological asset is readily determinable:

(a) The entity shall apply the fair value model in paragraphs 10–29 of IAS 41 *Agriculture* to account for those biological assets whose fair value is readily determinable, and the entity shall make all related disclosures required by IAS 41.

(b) The entity shall measure those biological assets whose fair value is not readily determinable at cost less any accumulated depreciation and any accumulated impairment losses. The entity shall disclose, for such biological asset(s):

(i) a description of the biological assets;

(ii) an explanation of why fair value cannot be measured reliably;

(iii) if possible, the range of estimates within which fair value is highly likely to lie;

(iv) the depreciation method used;

(v) the useful lives or the depreciation rates used; and

(vi) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.

The entity shall measure **AGRICULTURAL PRODUCE** harvested from its biological assets at fair value less estimated point-of-sale costs at the point of harvest. Such measurement is the cost at that date when applying Section 12 *Inventories* or other applicable section of this IFRS.

Extractive industries

34.2 An entity using this IFRS that is engaged in the exploration for, evaluation, or extraction of mineral resources shall recognise exploration expenditure as an expense in the period in which it is incurred. In accounting for expenditure on

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the acquisition or development of tangible or intangible assets for use in extractive activities, the entity should apply Sections 16 *Property, Plant and Equipment* and 17 *Intangible Assets other than Goodwill*, respectively. Where an SME has an obligation to dismantle or remove an item, or to restore the site, such obligations and costs are accounted for in accordance with Section 16 and Section 20 *Provisions and Contingencies*.

Insurance

35.3 Because an insurer holds assets in a fiduciary capacity for a broad group of outsiders, it has public accountability and, therefore, is not an SME as defined in paragraph 1.1. This IFRS is not intended for, and should not be used by, insurers.

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SECTION 36 DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

Discontinued operations

36.1 A **DISCONTINUED OPERATION** is a component of an entity that either has been disposed of, or is classified as held for sale, and

(a) represents a separate major line of business or geographical area of operations;

(b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or

(c) is a subsidiary acquired exclusively with a view to resale.

Presentation and disclosure

36.2 An entity shall disclose:

(a) a single amount on the face of the income statement comprising the total of:

(i) the post-tax profit or loss of discontinued operations; and

(ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or group(s) of assets and liabilities constituting the discontinued operation.

(b) an analysis of the single amount in (a) into:

(i) the revenue, expenses and pre-tax profit or loss of discontinued operations;

(ii) the related income tax expense as required by paragraph 28.25 of Section 28 *Income Taxes*;

(iii) the gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or group(s) of assets constituting the discontinued operation; and

(iv) the related income tax expense as required by paragraph 28.25 of Section 28.

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The analysis may be presented in the notes or on the face of the income statement. If it is presented on the face of the income statement it shall be presented in a section identified as relating to discontinued operations, ie separately from continuing operations.

(c) the net cash flows attributable to the operating, investing and financing activities of discontinued operations. These disclosures may be presented either in the notes or on the face of the financial statements.

36.3 Unless **IMPRACTICABLE**, an entity shall restate the disclosures in the preceding paragraph for prior periods presented in the financial statements so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.

36.4 If an entity ceases to classify a component of an entity as held for sale, the entity shall reclassify the results of operations of the component previously presented in discontinued operations and shall include them in income from continuing operations for all periods presented. The amounts for prior periods shall be described as having been restated.

Non-current assets held for sale

36.5 An entity shall classify non-current assets (including property, plant and equipment, intangibles, and investments in subsidiaries, associates and joint ventures) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or **DISPOSAL GROUP**) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets, its sale must be highly probable, and the entity must expect to complete the sale within one year from the date of classification as held for sale.

36.6 An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

36.7 An entity shall not depreciate (or amortise) a non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be recognised.

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Disclosure

36.8 An entity shall disclose the following information in the period in which property, plant and equipment has been either classified as held for sale or sold:

(a) a description of the asset or disposal group;

(b) a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal; and

(c) the gain or loss recognised, if not separately presented on the face of the income statement.

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SECTION 37 INTERIM FINANCIAL REPORTING

37.1 An entity that issues an interim financial report that is described as complying with this IFRS shall apply either IAS 34 *Interim Financial Reporting* or all of the requirements of this IFRS, except as provided in paragraph 37.2.

37.2 If an entity does not routinely prepare interim financial statements, but is required to do so on a one-time basis (for instance, in connection with a business combination), the entity may use its prior annual financial statements as its comparative prior period information required by IAS 34 or by paragraph 3.12, if it is impracticable to prepare financial statements for the comparable prior interim period.

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SECTION 38 TRANSITION TO THE IFRS FOR SMEs

38.1 This section applies to a **FIRST-TIME ADOPTER** of the IFRS for SMEs, regardless of whether its previous accounting framework was full IFRSs or another set of generally accepted accounting principles (GAAP). A first-time adopter shall apply this section in:

(a) its first financial statements that conform to the IFRS for SMEs; and

(b) each interim financial report, if any, that it presents under IAS 34 *Interim Financial Reporting* for part of the period covered by its first financial statements that conform to the IFRS for SMEs.

38.2 An entity's first financial statements that conform to the IFRS for SMEs are the first annual financial statements in which the entity adopts the IFRS for SMEs by making an explicit and unreserved statement in those financial statements of compliance with the IFRS for SMEs. Financial statements under the IFRS for SMEs are an entity's first such financial statements if, for example, the entity:

(a) did not present financial statements for previous periods;

(b) presented its most recent previous financial statements under national requirements that are not consistent with the IFRS for SMEs in all respects; or

(c) presented its most recent previous financial statements in conformity with International Financial Reporting Standards.

38.3 Paragraph 3.15 of this IFRS defines a complete set of financial statements.

38.4 Paragraph 3.12 of this IFRS requires that a complete set of financial statements disclose comparative information in respect of the previous comparable period for all monetary amounts reported in the financial statements, and certain comparative narrative and descriptive information as well. An entity may choose to present comparative information in respect of more than one comparable prior period. Therefore, the date of an entity's transition to the IFRS for SMEs is the beginning of the earliest period for which the entity presents full comparative information under the IFRS for SMEs in its first financial statements that conform to the IFRS for SMEs.

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38.5 Except as described in paragraphs 38.7–38.9, an entity shall, in its opening balance sheet as of its date of transition to the IFRS for SMEs (ie beginning of the earliest period presented):

(a) recognise all assets and liabilities whose recognition is required by the IFRS for SMEs;

(b) not recognise items as assets or liabilities if the IFRS for SMEs does not permit such recognition;

(c) reclassify items that it recognised under its previous financial reporting framework as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under the IFRS for SMEs; and

(d) apply the IFRS for SMEs in measuring all recognised assets and liabilities.

38.6 The accounting policies that an entity uses in its opening balance sheet under the IFRS for SMEs may differ from those that it used for the same date using its previous financial reporting framework. The resulting adjustments arise from events and transactions before the date of transition to the IFRS for SMEs. Therefore, an entity shall recognise those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to the IFRS for SMEs.

38.7 On first-time adoption of this IFRS, an entity shall not change the accounting that it followed under its previous financial reporting framework for any of the following transactions:

(a) derecognition of financial assets and financial liabilities;

(b) hedge accounting;

(c) estimates; and

(d) assets classified as held for sale and discontinued operations.

38.8 An entity may elect to use one or more of the following exemptions in preparing its first financial statements that conform to the IFRS for SMEs:

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(a) **Business combinations.** A first-time adopter may elect not to apply Section 18 *Business Combinations and Goodwill* to business combinations that occurred before the date of transition to the IFRS for SMEs. However, if a first-time adopter restates any business combination to comply with Section 18, it shall restate all later business combinations.

(b) **Fair value or revaluation as deemed cost.** A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to the IFRS for SMEs as its deemed cost as of that date.

(c) **Cumulative translation differences.** Section 30 *Foreign Currency Translation* requires an entity to classify some translation differences as a separate component of equity and to recognise those differences in profit or loss on disposal. A first-time adopter may elect not to recognise any cumulative translation differences in equity on the date of transition to the IFRS for SMEs.

(d) **Compound financial instruments.** Paragraph 21.7 requires an entity to split a compound financial instrument between its liability and equity components at issuance. A first-time adopter need not separate those two components if the liability component is no longer outstanding at the date of transition to the IFRS for SMEs.

(e) **Share-based payment transactions.** A first-time adopter is encouraged, but not required, to apply Section 25 *Share-based Payment* to equity instruments that were granted before the date of transition to the IFRS for SMEs.

(f) **Deferred income taxes.** A first-time adopter is not required to recognise **DEFERRED TAX ASSETS** or **DEFERRED TAX LIABILITIES** relating to differences between the **TAX BASIS** and the **CARRYING AMOUNT** of any assets or liabilities for which recognition of those deferred tax assets or liabilities would involve undue cost or effort.

38.9 If it is **IMPRACTICABLE** for an entity to restate the opening balance sheet at the date of transition in accordance with the IFRS for SMEs, the entity shall apply

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paragraphs 38.5–38.8 in the earliest period for which it is practicable to do so, and shall disclose the date of transition and the fact that data presented for prior periods are not comparable. If it is impracticable for an entity to provide any disclosures required by this IFRS for any period before the period in which it prepares its first financial statements that conform to the IFRS for SMEs, the omission shall be disclosed.

Disclosures

Explanation of transition to the IFRS for SMEs

38.10 An entity shall explain how the transition from previous financial reporting framework to the IFRS for SMEs affected its reported financial position, financial performance and cash flows.

Reconciliations

38.11 To comply with paragraph 38.10, an entity's first financial statements prepared using the IFRS for SMEs shall include:

(a) reconciliations of its equity reported under its previous financial reporting framework to its equity under the IFRS for SMEs for both of the following dates:

(i) the date of transition to the IFRS for SMEs; and

(ii) the end of the latest period presented in the entity's most recent annual financial statements under its previous financial reporting framework; and

(b) a reconciliation of the profit or loss reported under its previous financial reporting framework for the latest period in the entity's most recent annual financial statements to its profit or loss under the IFRS for SMEs for the same period.

38.12 If an entity becomes aware of errors made under its previous financial reporting framework, the reconciliations required by paragraph 38.11(a) and (b) shall distinguish the correction of those errors from changes in accounting policies.

38.13 If an entity did not present financial statements for previous periods, its first IFRS financial statements shall disclose that fact.

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GLOSSARY

accounting policies	The specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
accrual basis of accounting	The effects of transactions and other events are recognised when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.
accumulating compensated absences	Compensated absences that are carried forward and can be used in future periods if the current period's entitlement is not used in full.
agricultural activity	The management by an entity of the biological transformation of biological assets for sale, into agricultural produce or into additional biological assets.
agricultural produce	The harvested product of the entity's biological assets.
amortisation	The systematic allocation of the depreciable amount of an asset over its useful life.
asset	A resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity
associate	An entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.
balance sheet	Financial statement that presents the relationship of an entity's assets, liabilities and equity at a point in time
biological asset	A living animal or plant.
borrowing costs	Interest and other costs incurred by an entity in connection with the borrowing of funds.

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business	An integrated set of activities and assets conducted and managed for the purpose of providing: (a) a return to investors; or (b) lower costs or other economic benefits directly and proportionately to policyholders or participants. A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. If goodwill is present in a transferred set of activities and assets, the transferred set shall be presumed to be a business.
business combination	The bringing together of separate entities or businesses into one reporting entity.
carrying amount	The amount at which an asset or liability is recognised in the balance sheet.
cash	Cash on hand and demand deposits.
cash equivalent	Short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.
cash flows	Inflows and outflows of cash and cash equivalents.
cash flow statement	Financial statement that provides information about the changes in cash and cash equivalents of an entity for a period, showing separately changes during the period from operating, investing and financing activities.
Cash-settled share-based payment transaction	A share-based payment transaction in which the entity acquires goods or services by incurring a liability to transfer cash or other assets to the supplier of those goods or services for amounts that are based on the price (or value) of the entity's shares or other equity instruments of the entity.
change in accounting estimate	An adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.
class of assets	A grouping of assets of a similar nature and use in an entity's operations.
combined financial statements	The financial statements of two or more entities controlled by a single shareholder.

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consolidated financial statements	The financial statements of a group of entities consisting of a parent and one or more subsidiaries.
construction contract	A contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.
constructive obligation	An obligation that derives from an entity's actions where: (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.
contingent asset	A possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.
contingent liability	(a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or (b) a present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability.
control (of an entity)	The power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
current tax	The amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for the current period.
deductible temporary differences	Temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.
deferred tax expense (income)	The amount of tax expense (income) included in the determination of profit or loss for the period in respect of changes in deferred tax assets and deferred tax liabilities during the period

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deferred tax assets	The amounts of income taxes potentially recoverable in future periods in respect of: (a) deductible temporary differences; (b) the carryforward of unused tax losses; and (c) the carryforward of unused tax credits.
deferred tax liabilities	The amounts of income taxes payable in future periods in respect of taxable temporary differences.
defined benefit liability	The present value of the defined benefit obligation at the balance sheet date minus the fair value at the balance sheet date of plan assets (if any) out of which the obligations are to be settled directly.
defined benefit obligation (present value of)	The present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.
defined benefit plans	Post-employment benefit plans other than defined contribution plans.
defined contribution plans	Post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.
depreciable amount	The cost of an asset, or other amount substituted for cost (in the financial statements), less its residual value.
depreciation	The systematic allocation of the depreciable amount of an asset over its useful life.
derecognition	The removal of a previously recognised asset or liability from an entity's balance sheet.
development	The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

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discontinued operation	A component of an entity that either has been disposed of, or is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations, (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or (c) is a subsidiary acquired exclusively with a view to resale.
disposal group	A group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.
effective interest method	A method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.
effective interest rate	The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.
effectiveness of a hedge	The degree to which changes in the fair value or cash flows of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or cash flows of the hedging instrument.
elements of financial statements	Broad classes of the financial effects of transactions and other events and conditions. (a) The elements directly related to the measurement of financial position are assets, liabilities and equity. (b) The elements directly related to the measurement of performance are income and expenses.
employee benefits	All forms of consideration given by an entity in exchange for service rendered by employees.
equity	The residual interest in the assets of the entity after deducting all its liabilities.
equity settled share based payment transaction	A share based payment transaction in which the entity receives goods or services as consideration for equity instruments of the entity (including shares or share options).

errors	Omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that: (a) was available when financial statements for those periods were authorised for issue; and (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.
expenses	Decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.
fair presentation	Faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses.
fair value	The amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.
finance lease	A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. A lease that is not a finance lease is an operating lease.

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financial asset	Any asset that is: (a) cash; (b) an equity instrument of another entity; (c) a contractual right: (i) to receive cash or another financial asset from another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or (d) a contract that will or may be settled in the entity's own equity instruments and that: (i) the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or (ii) will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.
financial instrument	a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
financial liability	Any liability that is: (a) a contractual obligation: (i) to deliver cash or another financial asset to another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or (b) a contract that will or may be settled in the entity's own equity instruments and that: (i) the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or (ii) will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.
financial position	The relationship of the assets, liabilities and equities of an entity as reported in the balance sheet.

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financial statements	Structured representation of the financial position, financial performance and cash flows of an entity.
financing activities	Activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.
first-time adopter	An entity that presents its first financial statements that conform to the IFRS for SMEs, regardless of whether its previous accounting framework was full IFRSs or another set of accounting standards.
functional currency	The currency of the primary economic environment in which the entity operates.
gains	Increases in economic benefits that meet the definition of income but that are not revenue.
general purpose financial statements	Financial statements directed toward the common information needs of a wide range of users, for example, shareholders, creditors, employees and the public at large.
going concern	An entity is a going concern unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.
goodwill	Future economic benefits arising from assets that are not capable of being individually identified and separately recognised.
government grants	Assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity.
grant date	The date at which the entity and another party (including an employee) agree to a share based payment arrangement, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. At grant date the entity confers on the counterparty the right to cash, other assets, or equity instruments of the entity, provided the specified vesting conditions, if any, are met. If that agreement is subject to an approval process (for example, by shareholders), grant date is the date when that approval is obtained.

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hedged item	For the purpose of special hedge accounting for SMEs under Section 11 of this IFRS, a hedged item is: (a) interest rate risk exposure in a debt instrument measured at amortised cost; (b) the foreign exchange risk exposure in a firm commitment or a highly probable forecast transaction; (c) the price risk exposure in a commodity that it holds or in a firm commitment or highly probable forecast transaction to purchase or sell a commodity that has a readily determinable market price; or (d) the foreign exchange risk exposure in a net investment in a foreign operation.
hedging instrument	For the purpose of special hedge accounting for SMEs under Section 11 of this IFRS, a hedging instrument is a financial instrument that: (a) is an interest rate swap that meets the conditions in paragraph 11.33; a foreign currency swap or a foreign currency forward exchange contract that is indexed to the same foreign currency as the hedged item; or a forward contract that is indexed to the same commodity as the commodity that is the hedged item; and (b) meets the other conditions in paragraph 11.32. An entity that chooses to apply IAS 39 in accounting for financial instruments shall apply the definition of hedging instrument in that Standard rather than this definition.
held for sale asset	Asset whose carrying amount will be recovered principally through a sale transaction rather than through continuing use.
impairment loss	The amount by which the carrying amount of an asset exceeds (a) in the case of inventories, its selling price less costs to complete and sell or (b) in the case of other non-financial assets, its fair value less costs to sell.
impracticable	Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.
income	Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.
income statement	Financial statement that presents information about the performance of an entity for a period, that is, the relationship of its income and expenses.

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income taxes	All domestic and foreign taxes that are based on taxable profits. Income taxes also include taxes, such as withholding taxes, that are payable by a subsidiary, associate or joint venture on distributions to the reporting entity.
intangible asset	An identifiable non-monetary asset without physical substance. Such an asset is identifiable when it: (a) is separable, ie is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or (b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
interim financial report	A financial report containing either a complete set of financial statements or a set of condensed financial statements for an interim period.
interim period	A financial reporting period shorter than a full financial year.
International Financial Reporting Standards (IFRSs)	Standards and Interpretations developed by the International Accounting Standards Board (IASB). They comprise: (a) International Financial Reporting Standards; (b) International Accounting Standards; and (c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).
intrinsic value	The difference between the fair value of the shares to which the counterparty has the (conditional or unconditional) right to subscribe or which it has the right to receive, and the price (if any) the counterparty is (or will be) required to pay for those shares. For example, a share option with an exercise price of CU15, on a share with a fair value of CU20, has an intrinsic value of CU5.
inventories	Assets: (a) held for sale in the ordinary course of business; (b) in the process of production for such sale; or (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.
investing activities	The acquisition and disposal of long-term assets and other investments not included in cash equivalents.

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investment property	Property (land or a building—or part of a building—or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production or supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business.
joint control	The contractually agreed sharing of control over an economic activity. It exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).
joint venture	A contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures can take the form of jointly controlled operations, jointly controlled assets, or jointly controlled entities.
jointly controlled entity	A joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.
lease	An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.
liability	A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
loans payable	financial liabilities other than short-term trade payables on normal credit terms.
material	Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.
measurement	the process of determining the monetary amounts at which the elements of the financial statements are to be recognised and carried in the balance sheet and income statement.

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minority interest	That portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent.
multi-employer (benefit) plans	Defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that: (a) pool the assets contributed by various entities that are not under common control; and (b) use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.
notes (to financial statements)	Notes contain information in addition to that presented in the balance sheet, income statement, statement of changes in equity and cash flow statement. Notes provide narrative descriptions or disaggregations of items disclosed in those statements and information about items that do not qualify for recognition in those statements.
notional amount	The quantity of currency units, shares, bushels, pounds, or other units specified in a financial instrument contract.
objective of financial statements	To provide information about the financial position, performance and cash flows of an entity that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs.
operating activities	The principal revenue-producing activities of the entity and other activities that are not investing or financing activities.
operating lease	A lease that does not transfer substantially all the risks and rewards incidental to ownership. A lease that is not an operating lease is a finance lease.
parent	An entity that has one or more subsidiaries.]
performance	The relationship of the income and expenses of an entity, as reported in the income statement.
plan assets (of an employee benefit plan)	(a) Assets held by a long-term employee benefit fund; and (b) qualifying insurance policies.
post-employment benefits	Employee benefits (other than termination benefits) that are payable after the completion of employment.

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post-employment benefit plans	Formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.
presentation currency	The currency in which the financial statements are presented.
probable	More likely than not.
profit	The residual amount that remains after expenses have been deducted from income.
projected unit credit method	An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation (sometimes known as the accrued benefit method pro rated on service or as the benefit/years of service method).
property, plant and equipment	Tangible assets that: (a) are held for use in the production or supply of goods or services, for rental to others, for investment, or for administrative purposes, and (b) are expected to be used during more than one period.
prospective application (of a change in accounting policy)	Applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed.
provision	A liability of uncertain timing or amount.
prudence	The inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.
publicly traded	registered with a securities commission or other regulatory organisation for the purpose of sale in a public market.
recognition	The process of incorporating in the balance sheet or income statement an item that meets the definition of an element and that satisfies the following criteria: (a) it is probable that any future economic benefit associated with the item will flow to or from the entity; and (b) the item has a cost or value that can be measured with reliability.

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related party — A party is related to an entity if:

(a) directly, or indirectly through one or more intermediaries, the party:
  (i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
  (ii) has an interest in the entity that gives it significant influence over the entity; or
  (iii) has joint control over the entity;

(b) the party is an associate (as defined in IAS 28) of the entity;

(c) the party is a joint venture in which the entity is a venturer (see IAS 31);

(d) the party is a member of the key management personnel of the entity or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

related party transaction — A transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

relevance — The quality of information that allows it to influence the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.

reliability — The quality of information that makes it free from material error and bias and represent faithfully that which it either purports to represent or could reasonably be expected to represent.

reporting date — The end of the latest period covered by financial statements or by an interim financial report.

research — Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

residual value (of an asset) — The estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

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retrospective application (of a change in accounting policy)	Applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.
revenue	The gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.
segment information	Financial information related to the different types of products and services an entity produces and the different geographical areas in which it operates.
separate financial statements	Those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees. If an investor in an associate or a venturer in a jointly controlled entity is not also a parent, its financial statements are not separate financial statements.
share-based payment transaction	A transaction in which the entity receives goods or services as consideration for equity instruments of the entity (including shares or share options), or acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price of the entity's shares or other equity instruments of the entity.
small and medium-sized entities (SMEs)	SMEs are entities that: (a) do not have public accountability; and (b) publish general purpose financial statements for external users.
state (employee benefit) plan	Employee benefit plans established by legislation to cover all entities (or all entities in a particular category, for example a specific industry) and operated by national or local government or by another body (for example an autonomous agency created specifically for this purpose) which is not subject to control or influence by the reporting entity.
statement of changes in equity	Financial statement that presents the profit or loss for a period, items of income and expense recognised directly in equity for the period, the effects of changes in accounting policy and corrections of errors recognised in the period, and (depending on the format of the statement of changes in equity chosen by the entity) the amounts of transactions with equity holders acting in their capacity as equity holders during the period.
statement of income and retained earnings	Financial statement that presents the profit or loss and changes in retained earnings for a period.

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substantively enacted	Tax rates shall be regarded as substantively enacted when future events required by the enactment process will not change the outcome.
subsidiary	An entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).
tax basis	The measurement, under applicable existing tax law, of an asset, liability or equity instrument. That asset, liability, or equity instrument may be recognised for both tax and financial reporting purposes, for tax purposes but not for financial reporting, or for financial reporting purposes but not for tax.
tax expense (tax income)	The aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.
taxable profit (tax loss)	The profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable)
termination benefits	Employee benefits payable as a result of either: (a) an entity's decision to terminate an employee's employment before the normal retirement date; or (b) an employee's decision to accept voluntary redundancy in exchange for those benefits.
taxable temporary differences	Temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.
temporary differences	Differences between the tax basis of an asset or liability and its carrying amount in the financial statements that will result in a taxable or deductible amount when the carrying amount of the asset or liability is recovered or settled. Temporary differences may be either taxable or deductible.
timing differences	Income or expenses that are recognised in profit or loss in one period but, under tax laws or regulations, are included in taxable income in a different period.
timeliness	Providing the information in financial statements within the decision time frame.
treasury shares	An entity's own equity instruments, held by the entity or other members of the consolidated group.

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understandability	The quality of information in a way that makes it comprehensible by users who have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.
useful life	the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.
vested benefits	Benefits, the rights to which, under the conditions of a retirement benefit plan, are not conditional on continued employment.

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DERIVATION TABLE

The IFRS for SMEs was developed by:

(a) extracting the fundamental concepts from the IASB *Framework* and the principles and related mandatory guidance from IFRSs (including Interpretations), and

(b) considering the modifications that are appropriate based on user needs and cost-benefit considerations.

The table below identifies the primary sources in full IFRSs from which the principles in each section of the IFRS for SMEs were derived.

Section in the IFRS for SMEs	Sources
Preface	*Preface to International Financial Reporting Standards*
1 Scope	–
2 Concepts and Pervasive Principles	IASB Framework, IAS 1 *Presentation of Financial Statements*
3 General Standards of Financial Statement Presentation	IAS 1
4 Balance Sheet	IAS 1
5 Income Statement	IAS 1
6 Statement of Changes in Equity and Statement of Income and Retained Earnings	IAS 1
7 Cash Flow Statement	IAS 7 *Cash Flow Statements*
8 Notes to the Financial Statements	IAS 1
9 Consolidated Financial Statements	IAS 27 *Consolidated and Separate Financial Statements*
10 Accounting Policies, Estimates and Errors	IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

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11	Financial Assets and Financial Liabilities	IAS 32 *Financial Instruments: Presentation*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*
12	Inventories	IAS 2 *Inventories*
13	Investments in Associates	IAS 28 *Investments in Associates*
14	Investments in Joint Ventures	IAS 31 *Interests in Joint Ventures*
15	Investment Property	IAS 40 *Investment Property*
16	Property, Plant and Equipment	IAS 16 *Property, Plant and Equipment*
17	Intangible Assets other than Goodwill	IAS 38 *Intangible Assets*
18	Business Combinations and Goodwill	IFRS 3 *Business Combinations*
19	Leases	IAS 17 *Leases*
20	Provisions and Contingencies	IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
21	Equity	IAS 1, IAS 32
22	Revenue	IAS 11 *Construction Contracts*, IAS 18 *Revenue*
23	Government Grants	IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*
24	Borrowing Costs	IAS 23 *Borrowing Costs*
25	Share-based Payment	IFRS 2 *Share-based Payment*
26	Impairment of Non-financial Assets	IAS 2, IAS 36 *Impairment of Assets*
27	Employee Benefits	IAS 19 *Employee Benefits*
28	Income Taxes	IAS 12 *Income Taxes*
29	Financial Reporting in Hyperinflationary Economies	IAS 29 *Financial Reporting in Hyperinflationary Economies*
30	Foreign Currency Translation	IAS 21 *The Effects of Changes in Foreign Exchange Rates*

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31	Segment Reporting	IFRS 8 *Operating Segments*
32	Events after the End of the Reporting Period	IAS 10 *Events after the Balance Sheet Date*
33	Related Party Disclosures	IAS 24 *Related Party Disclosures*
34	Earnings per Share	IAS 33 *Earnings per Share*
35	Specialised Industries	IAS 41 *Agriculture*, IFRS 4 *Insurance Contracts*, IFRS 6 *Exploration for and Evaluation of Mineral Resources*
36	Discontinued Operations and Assets Held for Sale	IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
37	Interim Financial Reporting	IAS 34 *Interim Financial Reporting*
38	Transition to the IFRS for SMEs	IFRS 1 *First-time Adoption of International Financial Reporting Standards*

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